Citadel

GROUP OF FUNDS™

	2004 Total Unitholder Return[1]
Citadel Diversified Investment Trust	20.5%
Citadel S-1 Income Trust Fund	31.7%
Citadel HYTES Fund	28.6%
Citadel SMaRT Fund	26.0%
MYDAS Fund	22.2%
Citadel Multi-Sector Income Fund	22.1%
Series S-1 Income Fund	16.6%
Citadel Income & Growth Fund	14.0%
Income & Equity Index Participation Fund	New in 2004
Energy Plus Income Trust	New in 2004
Citadel Stable S-1 Income Fund	New in 2005

2004 ANNUAL REPORT

[1] Change in market price in 2004 plus distributions reinvested

THE CITADEL GROUP OF FUNDS

The Citadel Group of Funds is an association of exchange traded mutual funds that share the common goal of delivering to unitholders the highest standard of performance, integrity and corporate governance. While each of the funds within the Citadel Group of Funds has differing investment objectives and structure, each utilizes the same team of experienced and dedicated officers and employees. The services of these officers and employees is made available to each fund through a cost sharing arrangement whereby each fund bears its share of the non-fund specific expenses of the group on a relative net asset value basis. Through this arrangement, unitholders of all funds benefit from a very experienced and efficient administration team.

CORPORATE GOVERNANCE

All of the funds within the Citadel Group of Funds maintain the highest level of corporate governance. Each fund is governed by a Board of Directors that consists of a majority of independent, unrelated and outside directors, none of whom have any economic interest in either our investment managers or Administrators. In addition, each Board has an Audit Committee consisting solely of independent, unrelated and outside directors and a Governance Committee consisting solely of outside directors. Each Board has reviewed the TSX Corporate Governance Guidelines and, where those guidelines are applicable to issuers having a structure like the Citadel Funds, those guidelines have been complied with. Please see our Statement of Corporate Governance Practices beginning on page 6.

CITADEL'S COMMITMENT TO OUR UNITHOLDERS

The funds that comprise the Citadel Group of Funds will at all times be administered and managed with the highest level of corporate governance and integrity. We will promptly and accurately respond to our unitholders questions and concerns. If you are an investor in one of the Citadel Funds and want further information on any of the other funds within the Citadel Group, or have any suggestions as to how we can help serve our unitholders better, please visit our website at www.citadelfunds.com or call us toll-free at 1.877.261.9674.

Table of Contents

Message to Unitholders

At the Citadel Group of Funds, we pride ourselves in delivering our investors structured investment products that achieve their stated investment objectives. 2004 has again been a year in which all of the funds within the Citadel Group have fully achieved or exceeded their investment objectives. In keeping with their conservative investment philosophy, Bloom Investment Counsel, the Investment Manager of 9 of Citadel's 11 exchange traded funds, achieved the investment objectives of the funds it manages while at the same time minimizing investment risk to unitholders by maintaining significant cash reserves. Included in this Annual Report is our report card on performance for each of our funds that monitors and comments on each fund's compliance with its investment objectives.

Out of all of the funds within the Citadel Group, only Citadel Diversified Investment Trust, our oldest fund, is permitted to issue additional trust units at a price less than its net asset value. In July of 1999, Citadel Diversified's unitholders approved an amendment to its Declaration of Trust allowing it to issue trust units at a discount to the trust's net asset value thereby giving it the financing flexibility to take advantage of, and capitalize on, significant valuation movements in the income fund market. Since being given this flexibility, Citadel Diversified has issued to its unitholders rights to acquire additional trust units at less than the current net asset value of the trust 3 times over the last 6 years, including August of 2004. Each offering has been timed to generate significant incremental returns for our participating unitholders, with the August 2004 rights offering being no exception. Unitholders participating in Citadel Diversified's August 2004 rights offering realized a total return on their incremental investment of 22.0% over the 3.5 months from the closing of the rights offering to December 31, 2004.

In addition to Citadel Diversified's rights offering, we also introduced two new and very different funds to our family of income funds during 2004, each designed to meet our unitholders' specific investment needs. In conjunction with these two new funds, we also introduced two new specialty Investment Managers specifically chosen to meet the investment challenges of our new funds. A third fund, Citadel Stable S-1 Income Fund, was introduced in February 2005 and is managed by Bloom Investment Counsel, Inc.

The Citadel team

Citadel Diversified Investment Trust	CTD.un
Citadel S-1 Income Trust Fund	SDL.un
Citadel HYTES Fund	CHF.un
Citadel SMaRT Fund	CRT.un
MYDAS Fund	MYF.un
Citadel Multi-Sector Income Fund	CMS.un
Series S-1 Income Fund	SRC.un
Citadel Income & Growth Fund	CIF.un
Income & Equity Index Participation Fund	IEP.un
Energy Plus Income Trust	EPF.un
Citadel Stable S-1 Income Fund	CSR.un

Report Card on Performance

There are a number of ways of measuring the performance of an investment; however, in our view the most important is whether the investment achieved the performance thresholds or targets upon which that investment was marketed. In addition, you must consider the level of risk assumed by the investment in achieving those targets. In the case of each Citadel Fund, we believe that an acceptable performance level is one in which the fund achieves its stated investment objectives, while minimizing the risk to our unitholders' capital.

This chart is a report card on each Citadel Fund's performance and a commentary on the compliance by each fund with its investment objectives.

Fund (Inception)	Investment Objectives	Targeted Annual Distribution	2004 Actual Distribution	2004 Net Asset Value Growth
Citadel Diversified Investment Trust (Sep 1997)	Over the life of the trust, to: 1. Provide a high level of cash distributions; and 2. Maximize net asset value.	Not specified. Currently $0.08 per unit per month	$1.04 per unit	$0.89 per unit, a gain of 8%
Citadel S-1 Income Trust Fund (Oct 2000)	Over the life of the trust, to: 1. Maintain an SR-1 stability rating; 2. Provide a high level of cash distributions; and 3. Maximize net asset value.	Not specified. Currently $0.208 per unit per month	$3.296 per unit	$2.34 per unit, a gain of 8%
Citadel HYTES Fund (Apr 2001)	To: 1. Provide a stable, sustainable and predominantly tax deferred targeted monthly distribution of $0.26 per unit; and 2. Return each unitholder's original investment of $25.00 per unit on termination of the Trust.	$3.12 per unit	$3.87 per unit	$3.59 per unit, a gain of 11%
Citadel SMaRT Fund (Sep 2001)	To: 1. Return each unitholder's original investment of $25.00 per unit on termination of the Trust; 2. Provide a tax advantaged monthly distribution, initially targeted at $0.208 per unit; and 3. Distribute to unitholder's the amount of the Trust's assets in excess of original investment of $25.00 per unit on termination of the Trust.	$2.496 per unit	$5.146 per unit	$0.66 per unit, a gain of 2%
MYDAS Fund (Feb 2002)	To: 1. Provide a stable tax effective monthly distribution of $0.1875 per unit; and 2. Return at least the original investment of $25.00 per unit to unitholders on termination of the Trust.	$2.25 per unit	$2.496 per unit	$2.75 per unit, a gain of 10%
Citadel Multi-Sector Income Fund (Feb 2003)	To: 1. Provide a stable, tax effective monthly distribution initially targeted at $0.0833 per unit; and 2. Return at least the original investment of $10.00 per unit to unitholders on termination of the Trust.	$0.9996 per unit	$0.9996 per unit	$1.30 per unit, a gain of 12%
Series S-1 Income Fund (Jun 2003)	To maximize total return by balancing the following objectives: 1. Provide a highly stable and sustainable monthly distribution initially targeted at $0.075 per unit; 2. Maintain an SR-1 stability rating for the Trust; and 3. Return at least the original investment of $10.00 per unit to unitholders on termination of the Trust.	$0.90 per unit	$0.90 per unit	$0.57 per unit, a gain of 5%
Citadel Income & Growth Fund (Oct 2003)	To utilize a portfolio comprised of at least 50% income funds and the balance other equities, to: 1. Provide unitholders with income from distributions received from the portfolio; and 2. Generate capital appreciation within the portfolio.	Announced annually. Currently $0.0708 per unit per month	$0.8496 per unit	$1.28 per unit, a gain of 13%
Income & Equity Index Participation Fund (Feb 2004)	To provide unitholders with the opportunity to: 1. Receive high levels of monthly cash distributions by investing in an equally weighted diversified portfolio of Canadian income funds, and 2. Participate in gains in the Canadian equity market represented by the S&P/TSX 60 Index through a capped call option.	No set level. Currently $0.07 per month	$0.70 per unit over the first 10.5 months of the Fund's existence	$1.10 per unit over the first 10.5 months, a gain of 12%
Energy Plus Income Trust (Nov 2004)	To: 1. Provide unitholders with monthly cash distributions; and 2. Achieve a total return on the portfolio over the term of the Fund that is greater than the total return provided by the S&P/TSX Capped Energy Trust Index over the same period.	No set level. Currently $0.0833 per month	$0.095 per unit over the first 1.5 months of the Fund's existence	$0.12 per unit over the first 1.5 months, a gain of 1%

The year 2004 began with the initial public offering in February of the first passively managed fund within the group, the Income & Equity Index Participation Fund. Income & Equity Index Participation Fund was structured to combine an equal weighted index portfolio of all income funds with a capped call option on the S&P/TSX 60 Index. By combining investments in both the income fund index and the S&P/TSX 60 Index, unitholders participate in a balanced passive investment designed to deliver both income and capital appreciation. By the end of 2004, Income & Equity Participation Fund had paid out 7% in cash distributions to unitholders and had recorded a net asset value appreciation of 11.3%. Included in our Annual Report this year for the first time is the report of Shaunessy & Company, the Rebalancing Advisor of the Income & Equity Index Participation Fund.

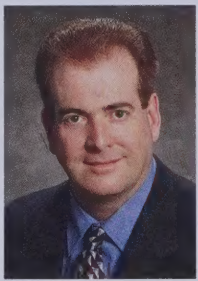
The second new fund to join the Citadel Group in 2004 was Energy Plus Income Trust, a fund that completed its initial public offering in mid-November, 2004. By year end, Energy Plus was 75% invested, had declared $0.095 per unit of distributions and had begun growing its net asset value. Energy Plus is an actively managed oil and gas and energy fund whose investment objective is to pay monthly distributions to its unitholders while at the same time out performing the S&P/TSX Capped Energy Trust Index. Given Energy Plus' particular focus on energy, we chose a specialty oil and gas manager, Galileo Equity Management. Since its inception, Galileo has been generating returns in the oil and gas sector for its pension fund clients that have significantly outperformed the S&P/TSX Composite Index over the same period. We look forward to having Galileo continue that track record of performance for Energy Plus' unitholders. Included in our Annual Report this year is Galileo's first report as Investment Manager on Energy Plus Income Trust.

Citadel's first exchange traded fund was constituted under the laws of the Province of Ontario, while all of Citadel's subsequent exchange traded funds were constituted under the laws of the Province of Alberta. We were therefore very pleased that new statutes were proclaimed in force in both Alberta and Ontario in 2004, creating a statutory limitation on the liability of unitholders of Alberta and Ontario income trusts. While we were always of the opinion that the possibility of unitholder liability was extremely remote, the new legislation in Alberta and Ontario now make that even remote possibility non-existent for the unitholders of the Citadel Funds.

Please take the time to review this report in its entirety. We encourage you to discuss your investment in any of the Citadel Funds with your investment advisor or, for specific questions on our funds, please call us directly.

Thank you for your continued support and confidence.

James T. Bruvall
Chief Executive Officer



Joseph F. MacDonald
Executive V.P., Sales & Marketing

Darren K. Duncan
Chief Financial Officer

Comments	2003 Total Unitholder Return[1]	2004 Total Unitholder Return[1]
All investment objectives were met, while at the same time Diversified reduced investment risk by maintaining a 20% average cash position in 2004. With a December 31, 2004 net asset value of $11.66 per unit and total per unit distributions since inception of $6.902, Diversified has succeeded in striking a balance between its competing investment objectives.	25.5%	20.5%
S-1's SR-1 stability rating was confirmed again in 2004 and all other investment objectives required to be met in 2004, were met. S-1 also reduced investment risk by maintaining a 6% average cash position in 2004. With a December 31, 2004 net asset value of $32.52 per unit, S-1 is on track to maximize its net asset value over its 10 year term (expiring 2010).	10.7%	31.7%
Substantially all investment objectives required to be met in 2004 were met, while at the same time HYTES reduced investment risk by maintaining a 14% average cash position in 2004. The Fund's one shortfall again this year was the amount of its distribution tax deferral in 2004. As a result of realizing substantial capital gains, HYTES tax deferral rate, at only 6%, did not satisfy its objective of having a predominantly tax deferred yield for 2004. With a December 31, 2004 net asset value of $35.07 per unit, HYTES is certainly on track to be able to return at least $25.00 per unit to unitholders on termination of the Fund in 2011.	25.3%	28.6%
All of SMaRT's investment objectives required to be met in 2004, were met. SMaRT's 2004 distributions were tax advantaged with 7% being tax deferred and 81% being treated as a capital gain distribution. With a December 31, 2004 net asset value of $31.01 per unit, SMaRT is on track to be able to return both unitholder's original investment of $25.00 per unit and the amount of its assets in excess of $25.00 per unit, on termination of the Fund in 2013.	20.3%	26.0%
All of MYDAS's investment objectives required to be met in 2004, were met. With a distribution tax deferral rate of 13.5% and with 50% being considered capital gains, MYDAS's 2004 distributions were tax effective. In addition, MYDAS reduced investment risk by maintaining a 17% average cash position in 2004. With a December 31, 2004 net asset value of $30.31 per unit, MYDAS is on track to be able to return at least the original investment of $25.00 per unit to unitholders, on termination of the Trust in 2007.	18.9%	22.2%
All of Multi-Sector's investment objectives required to be met in 2004, were met. With a distribution tax deferral rate of 11.9% and with 44% being considered capital gains, Multi-Sector's 2004 distributions were tax effective. In addition, Multi-Sector reduced investment risk by maintaining a 12% average cash position in 2004. With a December 31, 2004 net asset value of $11.81 per unit, Multi-Sector is on track to be able to return at least the original investment of $10.00 per unit to unitholders, on termination of the Fund in 2008.	8.9% (10.5 months)	22.1%
Series S-1's SR-1 stability rating was confirmed again in 2004 and all other investment objectives required to be met in 2004, were met. Series S-1 reduced investment risk by maintaining a 10% average cash position in 2004. With a December 31, 2004 net asset value of $11.14 per unit, Series S-1 is on track to be able to return at least the original investment of $10.00 per unit to unitholders, on termination of the Fund in 2009.	11.1% (6.5 months)	16.6%
All of Income & Growth's investment objectives required to be met in 2004, were met. In addition, Income & Growth reduced investment risk by maintaining a 10% average cash position in 2004. With a December 31, 2004 net asset value of $11.50 per unit, Income & Growth has generated 13% capital appreciation within its portfolio during its first full year of operations.	7.6% (2.5 months)	14.0%
All of Income & Equity's Investment Objectives were met in 2004. With steady distributions and an appreciation in the value of the capped call option of 14.1%, Income & Equity is well on its way to fulfilling its Investment Objectives for its entire 5 year term.	n/a	6.6% (10.5 months)
With Energy Plus having only 1.5 months of operations and only being 75% invested by year end, it is too early to determine whether the Fund has met its Investment Objectives, however based on early indications it appears that the Fund is well positioned to deliver on its commitments.	n/a	0.0% (1.5 months)

[1] Year-over-year change in market price of units plus distribution reinvestment.

Statement Of Corporate Governance Guidelines

Each Fund that is a member of the Citadel Group of Funds is administered by a separate Administrator. Each Administrator has a Board of Directors currently consisting of the same individuals. Those Administrators and their Boards of Directors have adopted the following corporate governance practices:

TSE Guidelines For Effective Corporate Governance	Do the Citadel Funds Comply?	Comments
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, including:	Yes	Each Fund within the Citadel Group of Funds has appointed a separate Administrator pursuant to an Administrative Services Agreement. Under the terms of the Administrative Services Agreement, the Administrator so appointed has been granted the exclusive authority to manage and administer the business and affairs of the Fund. The Board of Directors of each Administrator oversees and supervises the management and administration of the applicable Fund. Pursuant to the terms of a Unanimous Shareholder Agreement, a majority of the directors of each Administrator are appointed to act on behalf, and in the best interests, of the unitholders of the Fund.
(a) the adoption of a strategic planning process;	N/A	The mandate of the Board of each Administrator is to oversee the management of the business and affairs of the Fund that it administers. As a result of the single purpose nature of each Administrator, the development of a strategic plan does not apply to either the Administrators or the Funds.
(b) the identification of the principal risks of the Corporation's business and the implementation of appropriate systems to manage these risks;	Yes	The principal risks of all aspects of the business of the Fund are annually set out in each Fund's Annual Information Form. The Board ensures that systems are in place to effectively monitor and manage risks with a view to the long-term performance of the Fund, and conducts an annual review of the associated risks.
(c) succession planning, including appointing, training and monitoring senior management;	Yes	The Board of each Administrator takes ultimate responsibility for the appointment and monitoring of both the senior management of the Administrator and each Fund's Investment Manager. The Board periodically considers succession issues, both at the Administrator level and at the Investment Manager level for each Fund and ensures that succession plans are consistent with each Fund's needs.
(d) the Corporation's communications policy; and	Yes	Each Administrator has policies in place to ensure effective and timely communication and disclosure to the Fund's unitholders, other stakeholders and the public in general. The Board has the responsibility for ensuring compliance with these policies and that the financial performance of each Fund is reported to unitholders on a timely and regular basis. The Board reviews and approves all of the Fund's major disclosure documents.
(e) the integrity of the Corporation's internal control and management systems.	Yes	The Board of each Administrator ensures that each Administrator and Fund has in place effective control and information systems so that it can track those criteria needed to monitor compliance with each Fund's investment objectives. Each Administrator and Fund has an audit system, which can inform the Board of the integrity of the data and compliance of the financial information with generally accepted accounting principles.
2. & 3. The Board should be constituted with a majority of individuals who qualify as unrelated directors. An analysis of the qualification of the directors as unrelated should be disclosed annually.	Yes	The Board of each Administrator consists of five members. Three of the five directors of each of the Administrators are "unrelated" directors as defined by the TSX, being a director who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Fund, other than interests and relationships arising from being a shareholder. Of the five directors, only one, James Bruvall, is a member of management. As Chief Executive Officer of each Administrator, James Bruvall is considered an "inside" and "related" director. Kent MacIntyre is the majority interest holder in each of the Fund's Administrative Services Agreements and as such is considered a "related" director.
4. The Board should appoint a committee of directors composed exclusively of outside i.e. non-management directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.	Yes	The Board of each Administrator has appointed a Governance Committee, comprised of Harold Milavsky, Doug Baldwin, Paul Waitzer and Kent MacIntyre. All members are outside directors. The Governance Committee has amongst its mandates to generally assess, establish and develop a process for identifying, recruiting, appointing, re-appointing and providing ongoing development of members of the Board.
5. The Board should implement a process to be carried out by the Nominating Committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.	Yes	The Governance Committee has the responsibility for the evaluation of the performance of the Board of each Administrator as a whole and the evaluation of the performance of the committees of the Board. This committee also annually assesses and makes recommendations as to the structure and composition of each of the committees of the Board and reviews and makes recommendations as to the terms of reference of the committees of the Board.

TSE Guidelines For Effective Corporate Governance	Do the Citadel Funds Comply?	Comments
6. The existence of an orientation and education program for new recruits to the Board.	Yes	While the Administrators do not currently have a formal orientation and education program for new recruits to the Boards, the Administrators have historically provided such orientation and education on an ad hoc basis.
7. The size of the Board and the impact of the number of directors upon the Board's effectiveness.	Yes	The Board considers that five members is currently an appropriate number of directors, having regard to the nature of the business of the Administrators and the governance structure of the Funds and the experience and expertise required to carry out their duties effectively while maintaining a diversity of view and experience.
8. The adequacy and form of compensation of directors should realistically reflect the responsibilities and risk involved in being an effective director.	Yes	The Board has appointed a Governance Committee comprised of Harold Milavsky, Doug Baldwin, Paul Waitzer and Kent MacIntyre. The Governance Committee has amongst its mandates to review and make recommendations as to the adequacy and form of directors' compensation provided by the Administrators to ensure it reflects the responsibilities and risks of membership on the Board and participation on committees of the Board.
9. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated directors.	Yes	The Board has constituted two committees: the Governance Committee and the Audit Committee. All of the members of each of the Board's committees are outside directors and all are unrelated except one member of the Governance Committee.
10. The Board's responsibility for (or a committee of the Board's general responsibility for) developing the Corporation's approach to governance issues.	Yes	The Board has appointed a Governance Committee comprised of Harold Milavsky, Doug Baldwin, Paul Waitzer and Kent MacIntyre. The Governance Committee has amongst its mandates to review and advance the governance of each Administrator and Fund and ensure that each maintains a culture of good governance practice.
11. The Board has developed: (a) position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities; and (b) the corporate objectives for which the CEO is responsible for meeting.	Yes	The Board retains all powers not delegated by the Board to management or Board Committees. The CEO's responsibilities and performance are reviewed annually. The CEO is accountable to the Board for meeting corporate objectives and for managing the day-to-day business of each Administrator, subject to compliance with plans and objectives approved from time to time by the Boards. The corporate objectives of the CEO include monitoring each Fund's Investment Manager, monitoring the compliance of each Fund with its investment objectives, developing and staffing each Administrator's management structure and providing effective communication between the Board, management and unitholders.
12. The structures and procedures ensuring that the Board can function independently of management.	Yes	All Board members except one are outside directors. At each meeting of the Board the outside directors hold an in camera session without management present to discuss various matters, including the performance of management and the independent functioning of the Board.
13. (a) the Audit Committee of the Board should be composed only of outside directors;	Yes	The Corporation's Audit Committee is comprised of Harold Milavsky, Doug Baldwin and Paul Waitzer, all of whom are unrelated and outside directors and all of whom are financially literate and have financial expertise.
(b) the roles and responsibilities of the Audit Committee should be specifically defined;	Yes	The Audit Committee meets at least four times annually. The Audit Committee has amongst its mandates to assist the Board in fulfilling its oversight responsibilities in respect of the adequacy, integrity and effectiveness of each Fund's financial reporting process and financial statements, including without limitation the adequacy, integrity and effectiveness of internal financial and management controls and systems; and the adequacy and integrity of the audit process.
(c) the Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate; and	Yes	The Audit Committee and auditors each have direct communication with the other. The Audit Committee also reviews with management and the auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting; separately interviews management and the auditors regarding significant financial reporting issues during the fiscal period and the method of resolution; and reviews any problems experienced by the auditors in performing the audit, including any restrictions imposed by management or significant accounting issues in which there was a disagreement with management.
(d) the Audit Committee's duties should include oversight responsibility for management reporting on internal controls and should ensure that management has designed and implemented an effective system of internal controls.	Yes	The Audit Committee reviews and makes recommendations with respect to information and control systems of each Administrator and Fund; and reviews and approves all major changes to information and control systems of each Administrator.
14. The existence of a system which enables an individual director to engage an outside advisor at the Corporation's expense in appropriate circumstances.	Yes	The Board as a whole, any committee of the Board, the independent directors as a group or any single director may engage outside advisors at the expense of the Funds, subject to approval of the Governance Committee.

Report of the Investment Manager – Bloom Investment Counsel, Inc.

Investment Manager for:

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Citadel Stable S-1 Income Fund

CANADIAN EQUITY MARKET

In 2004, North American markets overcame a number of uncertainties including the onset of a rising Fed rate, high energy prices (oil was, if only briefly, over U.S.$50/barrel), a weakening U.S. dollar and the November U.S. presidential election. The S&P/TSX Composite Index achieved a total return of 14.5% with energy (+30.3%), financials (+19.9%), and telecom (+12.1%) leading the overall market. Only healthcare declined with a –17.3% showing.

In addition to being a year of strong commodity prices (CRB Index up 12%), 2004 will also evoke memories of a strengthening Canadian dollar. The Canadian dollar averaged U.S.$0.77 in 2004, up approximately 8% versus the U.S.$0.71 average in 2003. As against other major currencies, many believe that the U.S.$ continued to weaken due to the U.S. budget and current account deficits. After a 30% appreciation in the loonie over the past two years, worries have mounted that a negative impact on Canadian production and employment is inevitable.

The Income Trust Market

The S&P/TSX Income Trust Index returned 26.8% in 2004, nearly double the 14.5% return of the S&P/TSX Composite. Of the trust sector's total return, just over 17% was derived from unit appreciation with the remainder from distributions paid. Approximately 92% of income funds met or increased their distribution levels.

The five year return comparison was even more impressive with the S&P/TSX Composite Income Trust Index having returned an annual average of 25.6% versus the 3.6% of the S&P/TSX Composite Index. The trust sector's absolute and relative performance has been outstanding and accordingly continues to attract investor interest and capital.

For the trust sector, 2004 represented the fifth consecutive year of superior performance versus the broader equity market. Important positive trends that supported the trusts included: a low interest rate environment, on-going strong investor demand for income securities, and positive regulatory developments such as the Alberta and Ontario governments' enactment of limited liability legislation. As well, Canadian securities regulators finalized National Policy 41-201 on income fund offerings, which should provide greater clarity on a variety of disclosure items to issuers and other market participants. Finally in 2004, the Federal government stayed its previous budget proposal limiting foreign investment in oil and gas royalty trusts. In early 2005, another significant development was the announcement that income trusts will be included in the S&P/TSX Composite Index around mid-year.

By the end of 2004, the trust market consisted of 175 funds, up from 136 funds a year ago, with an aggregate capitalization of $121 billion versus a 2003 total of $83 billion. Both unit price appreciation and the addition of 39 new funds contributed significantly to the 47% sector increase in capitalization. Much of the increase in the size of the trust market came from the specialty business sector, which grew to 99 funds and represented 36% of the total trust equity market capitalization. Finally with 152 offerings totaling $15.5 billion, 2004 was another record year for income fund new issues versus 115 offerings of $14.5 billion in 2003.

Oil & Gas Royalty Trusts (31 trusts with a market value of $42.5 billion at December 31, 2004)

In 2004, the S&P/TSX Energy Trust Total Return Index returned 30.5%, the sixth consecutive year of positive total returns and a compounded annual growth rate of 35.6%. As in 2003 but contrary to the historical norm, unit price appreciation accounted for more than half of the total return.

The driver of this strong return was continued strengthening in commodity prices, fuelled in part by geopolitical concerns over crude oil supply disruptions. The WTI crude oil price averaged U.S.$41.74/barrel in 2004 or 34% higher than the 2003 average of U.S.$30.99. Nymex natural gas prices averaged U.S.$6.18/MCF for a 12% increase over the average price of $5.49 in 2003.

Thanks largely to substantially higher commodity prices, the quality of royalty trusts has improved over the years. Average payout and debt-to-cashflow ratios are significantly below levels of the late 1990s. Furthermore, corporate governance has improved with the elimination of most external management agreements.

While it remains impossible to predict commodity prices accurately, our focus remains on companies that will suffer least from the inevitable cyclical decline. These companies possess the right combination of low payout and leverage ratios as well as solid operational performance demonstrated through reserves, production and cashflow per unit growth.

Given the high valuation of the royalty trust sector, at roughly seven times 2005 cashflow, we proceed with caution. We would also expect to see further trust conversions. Vibrant acquisition activity should continue although at higher prices. In 2004, there were roughly 32 royalty trust transactions valued at about $7 billion and accounting for 45% of last year's total energy acquisition activity.

Real Estate Investment Trusts ("REITs") (25 trusts with a market value of $17.5 billion at December 31, 2004)

REITs performed well in 2004 with a total return of 14%, though below the five and ten year compounded annual growth rate of 19.4% and 18% respectively. Distribution yield mainly drove this performance, averaging over 8%. Growth in distributable income of slightly over 1% combined with a multiple expansion accounted for the remaining capital appreciation.

This 14% return is remarkable considering that the REITs experienced a correction of well over 10% in April. Two principal causes for this correction were valuation concerns and more importantly, fears of rising U.S. and Canadian interest rates given stronger than expected U.S. economic data. Between late March and June, ten year Canadian bond yields climbed 86 basis points. But the moderation of economic growth in the second half of 2004 as well the price correction alleviated investor concerns such that by year end, REIT valuations returned to all-time highs.

In 2004, retail and office represented the best performing segments of Canadian REITs with total returns averaging 24% and 23%, respectively. Diversified commercial followed with returns of roughly 16%. Commercial property REITs performance benefited from relatively stable lease income supplemented with accretive acquisitions. Apartment REITs averaged a total return of 13%.

Hotel REITs returned 10% with the Canadian hotel industry recovering only partially from SARS in 2003. The primary detractor from recovery was likely the Canadian dollar and cheaper U.S. domestic fares, which kept U.S. travelers at home. But numerous other reasons are also cited including political friction over the war in Iraq, uncertainty regarding border delays, as well as cool wet summer weather in Eastern Canada and the NHL lock-out.

The seniors housing REITs achieved the lowest return, averaging 8% in 2004 as result of reduced outlook for income and one distribution cut.

The REIT structure continues to become a more globally accepted investment vehicle for real estate offering transparency, tax efficiency and liquidity. While Canadian valuations appeared to be high, foreign capital is still being invested in the Canadian property market due presumably to lower relative prices. As a result, the top three real estate portfolio sales in 2004 were to foreign purchasers.

Income Funds (119 funds with a market value of $61 billion at December 31, 2004)

For the third consecutive year, this segment of the trust market experienced the largest increase in the number of companies and capitalization. Income funds, which we define here as any trust that is not an oil and gas trust or REIT, represent a diverse group of businesses. This diversity encompasses non-oil and gas resources, power generation, energy infrastructure, and a wide array of miscellaneous business trusts ranging from consumer products, industrial/logistics, manufacturing, media, and restaurants. Within this group, exposure to a strengthening Canadian dollar and to a lesser extent rising fuel prices were common concerns in 2004.

The group had a strong 2004 both in terms of unit price increases and income. Roughly 50% of the 119 diversified business trusts maintained their distributions. Another 38% actually increased distributions, a significant number of which not surprisingly were energy service companies. Those trusts that cut tended to be in capital goods or consumer products.

Power and pipes, which Standard & Poors deems to be the most stable yielding trusts and thus bestows mostly ratings of SR-1 to SR-3, rose 17% in 2004. As with the REITs, a changing interest rate outlook in 2004 caused the average yield of these hyper-rate sensitive trusts to change significantly throughout the year. By the end of 2004 however, the average yield returned to around the 8% level as at the beginning of 2003.

The remaining collection of resource based, energy infrastructure and miscellaneous business income funds yielded an average of 8.7% on December 31st, approximately 90 basis points lower than the 9.6% at the start of the year.

The Citadel Funds

Given the income trust market's strong performance record and relatively high valuation levels, we continued to maintain a high level of cash in 2004. With the knowledge that we could continue to meet the income needs of our investors, our focus remained to balance these needs with capital preservation. This focus should result in a superior risk and return combination for our mostly risk averse unitholders.

Accordingly, our funds remained underweight the cyclical energy trusts in 2004. This underweight detracted from performance relative to the S&P/TSX Income Trust Index but was offset to an extent by strong stock selection. The allocation to energy and energy related infrastructure was nevertheless substantial and ranged between 27% and 38% depending on the fund. Many of these investments announced distribution increases and yet continue to achieve payout ratios of only 70% to 80%.

In virtually all our funds in 2004, the investment in miscellaneous business trusts rose substantially as a percentage of their overall portfolios. The income trust market witnessed a number of new and interesting investment opportunities mostly in the form of newly public trusts. The promising nature of these businesses, along with the prospect of a stronger economic environment likely accompanied with rising interest rates, motivated these investments.

Citadel Diversified Investment Trust

In 2004, the simple value added return of the change in NAV plus distributions was 17.9%, net of the highly attractive yet dilutive effect of the September rights offering. Excluding this dilution, the total asset return would have been somewhat higher. The actual price return net of distributions was an even better 20.5%. Citadel Diversified distributed $1.04 per unit in 2004, including a special distribution of $0.08 per unit as a result of successive years of very strong financial performance. The Fund ended the year with a 15.8% cash position.

We initiated positions in a number of new business trusts, which raised our miscellaneous business trust weighting from roughly 26% to 35%. These positions included Armtec and The Brick which both had strong trust-market debuts with total returns of 40%. Funds were diverted from investments in the REIT and Materials sectors, including Riocan and Fording, and from cash. While our weighting in royalty trusts remained steady at 21%, the Fund benefited from the addition of higher quality names plus the elimination of laggards. The outperformers included NAL and Paramount while the laggard was principally Pengrowth.

On August 6th, the Fund announced a rights offering at $9.70 per unit representing a 12.4% discount to the then NAV/unit of $11.07. The reason for the offering was to provide the Trust with additional capital to pursue attractive investment opportunities after having essentially become fully invested. The rights offering was fully subscribed resulting in the issuance of 5,718,944 units for gross proceeds of $55.5 million as of September 16th.

Citadel S-1 Income Trust

In 2004, the Fund's simple value added return of the change in NAV plus distributions was 18.7%. Actual price return net of distributions was an even better 31.7%. Citadel S-1 Income Fund distributed $3.296 per unit in 2004, including a special distribution of $0.80 per unit as a result of successive years of very strong financial performance. The Fund ended the year with an 8.2% cash position.

Relative to most of our other funds, this SR-1 rated fund has a higher total allocation to stable, low-volatility trusts, namely power generation, infrastructure and REITs. For Citadel S-1 in 2004, the biggest sector weight changes occurred both in the power (22% of total versus 27% in 2003) and miscellaneous business trust (20% versus 14%) sectors. Based on our risk/return outlook, Calpine Power was eliminated while both Algonquin and TransCanada Power L.P. investments were reduced. Our position in TransAlta L.P., on the other hand, was increased. Among business trusts, we initiated positions in CML Healthcare, Royal LePage and Yellow Pages. These three trusts each have strong market positions.

Citadel HYTES Fund

In 2004, the simple value added return of the change in NAV plus distributions was 23.7%, despite ending the year with a 14.1% cash position. This cash position was net of a mandatory debt amount of $13.5 million. Actual price return net of distributions was higher still at 28.6%. Citadel HYTES Fund distributed $3.87 per unit, including a special distribution of $0.75 per unit as a result of successive years of very strong financial performance.

Given the Fund's higher risk nature, Citadel HYTES has significant weights of roughly 30% and 40% in the energy and miscellaneous business sectors respectively. In the energy group, the weighting for which was essentially unchanged in 2004, additions of note included Acclaim and Paramount while profits were taken as we trimmed holdings in ARC and Enerplus. The business trusts portion of the Fund now includes The Brick, IBI and Medical Facilities as well as a larger Cineplex investment. Finally based on our risk/return outlook, a number of trusts were eliminated including Fording Coal and certain REITs such as Riocan were eliminated reducing the overall investment in real estate.

Citadel SMaRT Fund

In 2004, the simple value added return of the change in NAV plus distributions was 19.1%. Actual price return net of distributions was higher still at 26.0%. The fixed portfolio, which acts as a capital guarantee and represented roughly 35% of SMaRT in 2004, caused the Fund's performance to lag the S&P/TSX Energy Trust Index. Citadel SMaRT Fund distributed $5.146 per unit in 2004, including a special distribution of $2.65 per unit as a result of successive years of very strong financial performance. The Fund ended the year with a 1.9% cash position.

Changes among royalty trust holdings included additions to Acclaim while significantly reducing positions in such companies as Advantage, APF Energy and Viking. We also completely eliminated investments in Pengrowth and Primewest.

MYDAS Fund

In 2004, the simple value added return of the change in NAV plus distributions was 19.0%, despite ending the year with a 10.3% cash position. Actual price return net of distributions was a total of 22.2%. The Fund distributed $2.496 per unit in 2004.

MYDAS tends to have a larger weight in the energy (23% versus 20% in 2003) and miscellaneous business (43% versus 40% in 2003) sectors. The Fund benefited from a larger investment in Paramount and a new position in Harvest, among the top performing royalty trusts of 2004. The elimination of our investments in Pengrowth, Primewest and Petrofund proved wise as these greatly underperformed the royalty trust average. Significant new investments in the business trust group included The Brick, CML Healthcare and Yellow Pages. Other changes of note included the elimination of Fording given its strong performance, as well as additional purchases of Atlas Cold Storage and Retirement Residences given a more positive risk/reward outlook.

Citadel Multi-Sector Fund

In 2004, the simple value added return of the change in NAV plus distributions was 21.9%. The actual price return net of distributions was a total of 22.1%. The Fund distributed $0.9996 per unit in 2004 and ended the year with a 5.3% cash position.

In line with a less conservative outlook, investments in convertible debentures were reduced to a negligible level and our cash position significantly reduced. Redeployed funds increased the energy weight from 18% at the end of 2003 to 23% at the end of 2004 with significant additions to Acclaim and new positions in Bonavista and Harvest. Subsequent to our investment, all three names benefited from above-average performance. Supplementing these holdings was an increasing investment in energy infrastructure names Altagas and Keyspan (now Keyera). Our business trust allocation rose from 31% to 37% as we added a number of promising new investments including The Brick, CML Healthcare, Granby, and Yellow Pages.

Citadel Series S1 Fund

In 2004, the simple value added return of the change in NAV plus distributions was 13.9%. Actual price return net of distributions was 16.6%. The Fund distributed $0.90 per unit in 2004 and ended the year with an 8.3% cash position.

As an SR-1 rated fund, Series S-1 has a higher total allocation to stable, low-volatility trusts in power generation, infrastructure and REITs. With the exception of a handful of eliminations (Fording, Pengrowth, and UE Waterheaters), there was relatively little activity in 2004. The most active area was within energy infrastructure (15% of the portfolio versus 12% in 2003) with the addition of Altagas and Taylor Gas Liquids. Within the power group, a reduction in our Calpine Power investment was somewhat offset by additions to Algonquin and Boralex.

Citadel Income and Growth Fund

In 2004, the simple value added return of the change in NAV plus distributions was 20.8%. Unfortunately, the TSX trading price of the Fund's units did not keep pace with the underlying assets and as a result, the total return based on the trading price was only 14.0%. The Fund distributed $0.8496 per unit in 2004 and ended the year with a 3% cash position.

As with a number of our other funds, allocations rose most in the energy (24% in 2004 versus 15% in 2003) and miscellaneous business sectors (40% versus 30%). New royalty trust positions included Esprit, Harvest and Paramount as well as a significant addition to Acclaim. The latter three all outperformed the royalty trust average. The elimination of APF also proved timely given its underperformance. With respect to business trusts, new positions were added in The Brick and Medical Facilities while substantial additions were made to Cineplex and Rogers Sugar.

From within our common equity holdings, we eliminated the underperforming investment in Abitibi. Our comparable investment in CanWest on the other hand returned a particularly strong return exceeding 40% in less than a year.

OUTLOOK

Given record high valuations, our outlook for 2005 remains conservative and we expect largely distribution driven returns. These high valuations make the trust market particularly vulnerable to the prospect of higher interest rates and lower energy prices, in our view the two greatest risks. The potential for continued strengthening of the Canadian dollar is also a concern. Most economists expect interest rates to remain relatively low in Canada providing continued support for income trust valuations.

On January 26th, Standard & Poor's announced the intent to include trusts with the necessary liquidity and size requirements in the Canadian composite index. Analysts estimate that as many as 55 to 60 trusts could be eligible for inclusion, increasing the index capitalization by over 8%. We believe this is yet another long-term positive development which adds further legitimacy to the view that income trusts will be an equity market of significant importance. Over time, S&P's recent decision should broaden the income trust investor base and result in more institutional funds flow into the trust market.

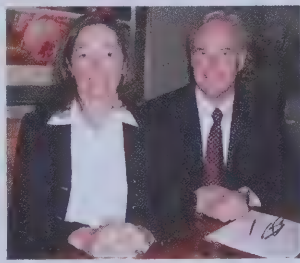
Likely occurring around mid-year 2005, index inclusion should benefit the oil and gas royalty trusts the most and to a lesser extent REITs. The composite is currently well represented by senior energy producers and junior exploration companies but lacks mid-sized energy companies. As quite a few of the royalty trusts are intermediates, royalty trusts could potentially replace a significant number of the energy companies in the TSX index.

M. Paul Bloom   C. Barbara Smith   Kaan S. Oran
Bloom Investment Counsel, Inc.
March 16, 2005

Report of the Rebalancing Advisor – Shaunessy & Company Ltd.

Rebalancing Advisor of:

Income & Equity Index Participation Fund



The Shaunessy team

2004 INVESTMENT REVIEW

The Income & Equity Index Participation Fund (IEP) is comprised of an equal weighted index of distribution paying income trusts with a minimum float market capitalization of $200 million as well as a five year capped call option on the TSX 60 Index. Since inception on February 18, 2004, the net asset value (NAV) of IEP has increased from $9.42 per unit to $10.52 per unit at December 31, 2004 representing an 11.7% increase in value. In addition to the rise in NAV, IEP paid out $0.70 per unit in cash distributions. Both the income trust index and the TSX 60 Capped Call Option contributed to the rise in value in 2004.

Sector	2004 Sector Total Return (%)	Portfolio Weight (%)[1]
Oil & Gas Royalty	29.9	26.9
Basic Materials	23.2	5.6
Business Trusts	21.1	29.7
Infrastructure	13.3	10.3
Real Estate	8.5	17.7
Power Generation	4.0	9.5

[1] As at December 31, 2004 excluding Capped Call Option

At December 31, 2004, IEP was comprised of 107 equally weighted TSX listed income trusts. From February 29, 2004, to December 31, 2004, the index produced a total return of 18.1% comprised of 8.1% in distributions and 10% in capital gains. As the table shows, oil & gas was the largest single contributor to total return followed by basic materials and business trusts.

In February 2004, Income & Equity purchased an "at the money" (486) five year capped call option on the TSX 60 from two chartered banks. The option is a European option meaning that it can only be exercised on the expiry date. The option is capped at the first 30% rise of the TSX 60. Consequently, if the TSX 60 is at 632 or greater on February 18, 2009, investors will receive $3.00 per unit from the option. Currently, the TSX 60 Index stands at 540 so that this index has to rise by only 17% more in the next 4 years in order for the option to pay out the full $3.00 per unit. Both chartered banks provide a quoted market value (QMV) for the options which, at year end 2004, amounted to $20.0 million or 13% above cost.

SUBSEQUENT EVENTS

Since December 2004, the net asset value of IEP has continued to rise and stood at $ 11.11 per unit at March 17, 2005. The combined QMV of the TSX 60 option was $ 23.7 million on March 17 representing a 18% rise since December 31, 2004 and a 34% rise from the cost base.

As an asset class, income trusts received two big boosts in the first quarter of 2005. First, ambiguities surrounding legal liability were resolved by provincial legislation, which opened up the asset class to most institutional pension funds. Second, S&P made the decision to include the asset class in the S&P/TSX Composite Index sometime in the future thereby eliminating the last barrier to investment. With a healthy spread of 400+ basis points over the 10 year GOC bond and little competition for other areas of the fixed income market, 2005 is shaping up to be another good year for income trusts and Citadel's equal weighted index.

Terry Shaunessy
Shaunessy & Company Ltd.
March 18, 2005

Report of the Investment Manager – Galileo Equity Management Inc.

Investment Manager of:

Energy Plus Income Trust

The Galileo team

AN ENCOURAGING START

As we had discussed while on the roadshow in October 2004, we were patient in terms of investing the proceeds of the offering. Accordingly, we were able to take advantage of lower trust prices when the price of oil fell in early November. Oil has now tested its 200 day moving average twice and bounced upward each time. Following the second test, the oil price moved decisively up through $48 per barrel and we decided to become fully invested. The portfolio is currently comprised of 21 royalty trusts and four exploration companies. We are very pleased with the construction of the portfolio in terms of holdings and we are excited about its future prospects.

The price of oil was the real wild card of the fourth quarter. Having traded as high as $55 per barrel, the price rapidly retreated to the $41-44 level. Frankly, we were surprised at how quickly the price retreated spurred on by warm weather in the Northeast and a small build in inventories. Following the drop, oil prices rose sharply and have traded in a range between $45 and $55 per barrel since the beginning of the new year. In order for oil prices to match the current consensus average for 2005, the price would have to immediately drop to $38 per barrel (from $56 at the time of writing) and stay there for the rest of the year.

Going forward, we believe that the price of oil needs to trade in a sustained range above $38 per barrel in order to encourage new exploration and development. Any price substantially less will cause the global oil industry to retreat from exploration programs and energy markets will simply end up back in the same supply-constrained market that we have been experiencing. Years of underinvestment by the majors are a significant contributor to today's higher prices.

Simply put, all the 'easy' oil has been found. Any meaningful amounts of new reserves will likely come from geographic areas that are challenging (i.e. Russia, Africa, Arctic regions) and involve much higher risk and costs. Without higher prices, the majors will simply not make the necessary investments having been 'burned' too many times in previous oil price cycles.

In terms of the Western Canadian industry, a price above $38 per barrel will result in companies that are very, very profitable. The economics of producing oil and natural gas at these levels will result in corporate earnings and cashflow that exceed current expectations. Most common share and unit trust net asset valuations are currently discounting $30-32 per barrel so in our view, significant upside continues to exist in energy shares.

With respect to unit trusts, the higher price band will assure current distribution levels (certain pay-outs may even increase) while adding confidence to the sustainability of the business model. Furthermore, we believe that there is a significant evolution underway in the Canadian oil and gas industry. In its early years, the royalty trust market was compromised of entities that were created solely for 'financial engineering' purposes by corporate finance departments. Payout rates were very high (90% or more) and the sustainability of the business model was questionable. However, in the last few years, as higher commodity prices resulted in a surge in profitability, operating oil and gas companies have turned to the royalty trust structure so as to become more tax efficient. Today, we have a large number of trusts that are run by seasoned, experienced oil and gas professionals that have pay-out rates in the 40%-70% level and possess a high percentage of property operatorship. As fundamental investors, this makes much more intuitive sense to us and we believe that many of these so-called hybrid trusts are sustainable for years to come. In an environment of subdued overall investment returns, yields of 11% to as high as 16% appear quite enticing.

We would also note that legislation in Alberta and Ontario has been passed that eliminates unlimited liability. From a liability risk standpoint, trusts are now no different from common equity. We would also highlight oil and gas service stocks as a major beneficiary of our pricing outlook. At $38+ per barrel oil and $5.25/mcf gas, the industry will continue to re-invest in developing new reserves. We suspect the rig count will stay strong in Western Canada well into 2006. Accordingly, service companies stand to benefit handsomely from the industry's new-found profitability. We believe, that with visibility into 2006, service stocks deserve to be accorded higher valuations.

To be sure, China's growth and consumption of energy is pivotal to sustaining current prices. While China's energy consumption may have hit a short term peak last September-October, we suspect that demand will continue to be robust putting ongoing pressure on global markets. China's desire to build a strategic petroleum reserve (SPR) will only add demand to the equation. And early indications in 2005 suggest that China's economic momentum is continuing unabated. All in all, the outlook for energy markets remains extremely positive.

Michael Waring
Galileo Equity Management Inc.
March 18, 2005

Administrators

Each Fund within the Citadel Group of Funds shares the same management team. Each of the Funds subsequent to Citadel Diversified have agreed, in exchange for the right to use the "Citadel" name and the right to use the infrastructure created by Citadel Diversified, to contribute amounts to the aggregate overhead of the Funds. Citadel Diversified Management Ltd. ("CDML") is the administrator of Citadel Diversified Investment Trust, Citadel S1 Management Ltd. ("CSML") is the administrator of Citadel S-1 Income Trust Fund, Citadel TEF Management Ltd. ("CTEF") is the administrator of Citadel HYTES Fund, Citadel CPRT Management Ltd. ("CPRT") is the administrator of Citadel SMaRT Fund, MYDAS Management Inc. ("MMI") is the administrator of MYDAS Fund, Citadel Multi-Sector Management Inc. ("CMSI") is the administrator of Citadel Multi-Sector Income Fund, Citadel Series Management Ltd. ("SML") is the administrator of Series S-1 Income Fund, Citadel IG Management Ltd. ("CIGM") is the administrator of Citadel Income & Growth Fund, Equity Lift Management Ltd. ("ELM") is the administrator of Income & Equity Index Participation Fund, N.A. Energy Management Inc. ("NAEM") is the administrator of Energy Plus Income Trust and Stable Yield Management Inc. ("SYM") is the administrator of Citadel Stable S-1 Income Fund. CDML, CSML, CTEF, CPRT, MMI, CMSI, SML, CIGM, ELM, NAEM and SYM provide administrative services to their respective Funds and carry out all of the day to day operations of each Fund, other than investment advisory and portfolio management activities. The directors and officers of CDML, CSML, CTEF, CPRT, MMI, CMSI, SML, CIGM, ELM, NAEM and SYM are as follows:

Harold P. Milavsky (1) (2)
Chairman of the Board

Paul L. Waitzer (1) (2)
Director

Doug D. Baldwin (1) (2)
Director

Kent J. MacIntyre (2)
Director

James T. Bruvall
Director and
Chief Executive Officer

Darren K. Duncan
Chief Financial Officer

Joseph F. MacDonald
Executive V.P.,
Sales & Marketing

(1) Audit Committee member
(2) Governance Committee member

Bloom Investment Counsel, Inc.

Investment Manager for:

Citadel Diversified Investment Trust
Citadel S-1 Income Trust Fund
Citadel HYTES Fund
Citadel SMaRT Fund
MYDAS Fund
Citadel Multi-Sector Income Fund
Series S-1 Income Fund
Citadel Income & Growth Fund
Citadel Stable S-1 Income Fund

Bloom Investment Counsel, Inc. ("Bloom") is the investment advisor and portfolio manager for 9 of the 11 Funds within the Citadel Group of Funds. Bloom is responsible for implementing each Fund's investment strategy and determines the ongoing commodity, industry and geographic weighting of securities in each Fund's portfolio. In accordance with Bloom's active management philosophy, Bloom continually reviews each Fund's portfolio to ensure that the portfolio meets the investment guidelines of the Fund, while balancing the sometimes divergent goals of delivering income and protecting capital.

Bloom Investment Counsel, Inc. commenced business in 1985 and specializes in the management of segregated investment portfolios for wealthy individuals, their retirement plans, corporations and trusts.

The principal officers and consultants of Bloom which provide investment advisory, research and portfolio management services to each Fund are as follows:

M. Paul Bloom
President

C. Barbara Smith
Vice-President

Sara Bloom
Vice-President

Shaunessy & Company Ltd.

Rebalancing Advisor for:

Income & Equity Index Participation Fund

Shaunessy & Company Ltd. is the rebalancing advisor to the Income & Equity Index Participation Fund. Shaunessy & Company has been retained to provide investment advisory services to the Fund and to facilitate the semi-annual rebalancing of the Fund.

Shaunessy & Company Ltd. was formed in 2000 and provides broad market investing and asset allocation services to wealthy individuals, retirement plans, corporations and trusts. The principal officers of Shaunessy & Company Ltd. are as follows:

Terence Shaunessy
President and Director

Katherine Trafford
Director

Galileo Equity Management Inc.

Investment Manager for:

Energy Plus Income Trust

Galileo Equity Management Inc. is the investment counsel and portfolio manager to Energy Plus Income Trust. Galileo employs an active asset and commodity mix allocation investment approach whereby market conditions are evaluated to determine the most appropriate weightings of commodities, royalty trusts and resource securities.

Galileo Equity Management Inc. was formed in 2000 and provides investment advisory and portfolio management services to institutional clients such as pension funds, high net worth individuals, retirement plans, corporations and trusts. The oil and gas sector has been a primary focus of Galileo's principal advisors for over 20 years.

The principal officers and advisors of Galileo Equity Management Inc. are as follows:

Michael Waring
President

Peter Hanley
Vice-President

Leighton McCarthy
Chairman

Citadel Diversified Investment Trust

Stock Symbol	CTD.un (TSX)
2004 High/Low	**$11.90 - $9.31**
2004 Distribution	**$1.04 per unit**
2004 Taxable %	**66%**
2004 Total Return	**20.5%**
2004 Management Expense Ratio	**1.6%**

Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified") is a closed-end investment trust which became listed on September 16, 1997 on the Toronto Stock Exchange. The Fund has a termination date of December 31, 2012 or such earlier or later date as the unitholders may determine in accordance with the Declaration of Trust.

Citadel Diversified's investment objectives are to provide its unitholders with a high level of monthly distributions and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of oil and gas royalty trusts, real estate investment trusts, income funds and qualified limited partnerships.

During 2004, Citadel Diversified paid total distributions of $1.04 per unit (2003 - $0.96 per unit) which included a special distribution of $0.08 per unit for unitholders of record on December 31, 2004 in addition to the regular monthly distributions. In 2004, the Fund realized substantial capital gains of $7.4 million, thus increasing the capital gains component of its distributions for tax purposes. For 2004, 40.1% of the distribution was other taxable income, 5.0% was dividend income, 44.9% was capital gains and 10.0% was return of capital. As a result of the significant capital gains component, the net effective current taxable portion of the 2004 distribution was approximately 66%. Since inception in September 1997 to December 2004, the Fund has generated an annualized compound rate of return of 15.5% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS:

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 11.66	$ 11.07	$ 10.84	$ 11.29	$ 10.77
Market Price per Unit [1]	$ 11.42	$ 10.44	$ 10.49	$ 10.78	$ 10.45
Trading Premium (Discount)	(2.1%)	(5.7%)	(3.2%)	(4.5%)	(3.0%)
Quarterly Distributions per Unit	$ 0.32	$ 0.24	$ 0.24	$ 0.24	$ 0.24
12 Month Trailing Yield	9.1%	9.2%	9.2%	8.8%	9.2%
Market Capitalization ($ millions)	$ 328.0	$ 300.4	$ 240.0	$ 249.7	$ 244.2

[1] Net asset value and market price per unit are based on quarter end values.

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

2004 was another year of continued growth in net asset value for Citadel Diversified. Through a combination of increased market valuations and a successful rights offering, total net asset value climbed from $251.8 million at the end of 2003 to $335.0 million at the end of 2004. On a per unit basis, net asset value climbed to $11.66 per unit at the end of 2004 from $10.77 per unit at the end of 2003.

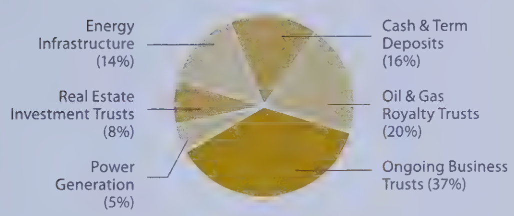
Citadel Diversified's market price also improved from $10.45 per unit at December 31, 2003 to $11.42 per unit at December 31, 2004. The Fund's unit price appreciation plus monthly distributions produced a 20.5% total return for 2004. By comparison, the S&P/TSX income trust index generated a 26.8% total return in 2004.

Total revenue increased from $23.8 million in 2003 to $24.5 million in 2004 with the increased asset base from the rights offering in 2004. Total administrative and investment manager fees, payable in units of the Fund, increased from $3.8 million in 2003 to $4.2 million in 2004 as the Fund's average net asset value increased. General and administration costs of $0.56 million for 2004 increased marginally from $0.46 million in 2003. Net investment income remained consistent year over year with $19.7 million generated in 2004 compared to $19.5 million in 2003. On a per unit basis, net investment income was $0.80 per unit in 2004 compared to $0.84 per unit in the previous year.

The Fund sold a number of its investments in the year realizing capital gains of $7.4 million (2003 - $6.3 million). The total change in unrealized gains on the Fund's portfolio was $31.4 million compared to $23.6 million in the prior year. With these significant gains, total results of operations were $58.5 million or $2.37 per unit compared to $49.4 million or $2.12 per unit in 2003.

In 2004, the Fund expanded its holdings in the ongoing business trusts while reducing its exposure to the more interest rate sensitive REITs. With the closing of its fully subscribed rights offering in September 2004, Citadel Diversified raised gross proceeds of $55.5 million. As a result, cash reserves at the end of 2004 were $53.5 million compared to $43.9 million at the end of 2003. As at December 31, 2004, the Fund's portfolio based on market values is shown in the chart below.

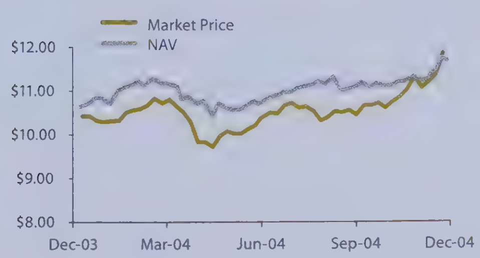
Portfolio Holdings



TRADING PREMIUM (DISCOUNT) TO NET ASSET VALUE

Over the past year, the Fund's market price traded at an average discount to its net asset value per unit of 4.4% compared to an average discount of 3.4% in 2003. As a result, the Fund was required to repurchase 831,407 units at an average cost of $10.48 per unit under its mandatory repurchase program in 2004 compared to 169,100 units in 2003. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

Citadel Diversified expects to maintain its current monthly distribution of $0.08 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

The Fund is well positioned with its cash reserves to take advantage of attractive investment opportunities as they arise while maintaining a balance of capital preservation and yield.

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Management's Responsibility Statement

The financial statements of Citadel Diversified Investment Trust have been prepared by Citadel Diversified Management Ltd. ("CDML") and approved by the Board of Directors of CDML. CDML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CDML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CDML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of CDML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel Diversified Management Ltd.
April 6 , 2005

Darren K. Duncan
Chief Financial Officer
Citadel Diversified Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Citadel Diversified Investment Trust

We have audited the statements of net assets and investments of Citadel Diversified Investment Trust as at December 31, 2004 and 2003 and the statements of operations and changes in net assets for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31 , 2005

Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $218,560,114; 2003 - $169,464,331)	$ 285,533,775	$ 205,041,348
Cash and term deposits	53,547,806	43,941,029
Prepaid expenses	3,466,269	1,859,653
Revenue receivable	2,511,738	1,793,913
Note receivable (note 5)	–	1,021,617
Accounts receivable	42,159	–
	345,101,747	253,657,560
Liabilities		
Accounts payable and accrued liabilities	5,520,000	21,374
Distributions payable	4,595,764	1,869,595
	10,115,764	1,890,969
Net Assets representing Unitholders' Equity	$ 334,985,983	$ 251,766,591
Units outstanding (note 3)	28,723,526	23,369,936
Net asset value per unit	$ 11.66	$ 10.77

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

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Statement of Operations

Year Ended December 31,	2004	2003
Revenue		
Investment income	$ 24,450,284	$ 23,842,301
	24,450,284	23,842,301
Expenses		
Administrative and investment manager fees (note 4)	4,172,100	3,835,339
General and administration costs	559,720	464,114
Loan interest	3,836	–
	4,735,656	4,299,453
Net investment income	19,714,628	19,542,848
Net realized gain on sale of investments (note 6)	7,436,098	6,250,456
Net change in unrealized gain on investments	31,396,645	23,579,879
Total results of operations	$ 58,547,371	$ 49,373,183
Results of operations per unit [1]		
Net investment income	$ 0.80	$ 0.84
Net realized gain on sale of investments	0.30	0.27
Net change in unrealized gain on investments	1.27	1.01
	$ 2.37	$ 2.12

[1] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Year Ended December 31,	2004	2003
Net Assets – beginning of year	$ 251,766,591	$ 223,498,273
Operations:		
Net investment income	19,714,628	19,542,848
Net realized gain on sale of investments	7,436,098	6,250,456
Net change in unrealized gain on investments	31,396,645	23,579,879
	58,547,371	49,373,183
Unitholder Transactions:		
Proceeds from issuance of trust units, net	59,587,385	2,836,966
Repurchase of trust units	(8,713,814)	(1,607,376)
	50,873,571	1,229,590
Distributions to Unitholders: (note 7)	(26,201,550)	(22,334,455)
Net Assets – end of year	$ 334,985,983	$ 251,766,591
Distributions per unit	$ 1.04	$ 0.96

see accompanying notes

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Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Ongoing Business Trusts						
ACS Media Income Fund	$ –	$ –		$ 2,375,424	$ 2,685,960	
Armtech Infrastructure Income Fund	4,507,385	6,187,500		–	–	
Art in Motion Income Fund	5,280,000	3,854,400		–	–	
Atlas Cold Storage Income Trust	–	–		4,304,027	2,540,000	
BFI Canada Income Fund	5,520,000	5,520,000		–	–	
The Brick Group Income Fund	6,500,000	9,074,000		–	–	
CML Healthcare Income Fund	6,114,390	7,609,500		–	–	
Chemtrade Logistics Income Fund	3,310,118	5,075,000		2,822,932	4,239,945	
Cineplex Galaxy Income Fund	1,018,500	1,470,000		–	–	
Clearwater Seafoods Income Fund	420,240	361,736		3,060,000	3,600,000	
Connors Brothers Income Fund	–	–		2,646,260	3,632,500	
Custom Direct Income Fund	4,451,928	5,089,900		3,500,000	3,626,000	
Davis + Henderson Income Fund	2,301,667	4,994,000		2,947,180	4,915,665	
Gateway Casinos Income Fund	3,211,000	7,003,750		3,211,000	5,070,000	
Great Lakes Carbon Income Fund	4,277,550	4,531,680		4,277,550	4,615,600	
Halterm Income Fund	4,889,404	5,754,750		2,396,604	1,800,945	
KCP Income Fund	7,054,933	8,507,268		2,557,000	3,119,540	
Livingston International Income Fund	2,848,506	5,949,250		2,414,107	3,900,000	
Medical Facilities Corp. Income Part. Sec.	5,164,846	6,050,000		–	–	
Menu Foods Income Fund	–	–		726,564	997,740	
Norske Skog Canada Ltd.	–	–		1,065,000	932,621	
Oceanex Income Fund	3,193,048	5,384,000		3,193,048	4,711,000	
Priszm Canadian Income Fund	4,034,440	5,912,000		3,720,000	3,887,400	
PRT Forest Regeneration Income Fund	–	–		2,199,039	1,998,900	
Rogers Sugar Income Fund	3,304,095	2,475,000		6,307,818	3,780,000	
SFK Pulp Fund	6,577,189	5,075,000		6,003,491	4,769,760	
SunGro Horticultural Income Fund	4,551,000	4,890,000		–	–	
TransForce Income Fund	6,687,631	11,117,900		4,264,700	4,824,660	
UE Waterheater Income Fund	4,522,748	5,396,000		1,527,000	1,746,888	
	99,740,618	127,282,634	37.5%	65,518,744	71,395,124	28.7%
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	5,558,788	7,479,360		3,990,738	4,800,000	
Advantage Energy Income Fund	–	–		2,971,300	4,126,200	
ARC Energy Trust	5,524,220	10,740,000		5,524,220	8,844,000	
Baytex Energy Trust	4,876,000	5,108,000		–	–	
Crescent Point Energy Trust	5,093,100	5,897,500		–	–	
Enerplus Resources Fund	2,280,163	4,360,000		2,280,163	3,935,000	
Harvest Energy Trust	934,100	1,147,500		–	–	
NAL Oil and Gas Trust	4,037,451	5,826,500		3,099,051	3,829,000	
Paramount Energy Trust	6,233,450	8,288,800		3,273,851	3,007,623	
Pengrowth Energy Trust	–	–		2,918,536	4,250,000	
PetroFund Energy Trust	3,430,000	4,829,734		–	–	
PrimeWest Energy Trust	–	–		3,479,737	3,445,000	
Shiningbank Energy Income Fund	3,123,404	5,157,600		2,546,445	3,914,400	
Ultima Energy Trust	–	–		3,430,000	4,368,000	
Vermilion Energy Trust	3,525,000	5,030,000		3,525,000	3,835,000	
Viking Energy Royalty Trust	5,314,943	5,400,000		5,025,543	4,237,500	
	49,930,619	69,264,994	20. 4%	42,064,584	52,591,723	21.1%
Pipeline/Energy Investments						
AltaGas Income Trust	4,955,225	5,637,025		–	–	
CCS Income Trust	2,330,693	6,299,562		2,330,693	4,373,700	
Energy Savings Income Fund	1,405,275	10,587,500		2,076,230	11,437,345	
Fording Canadian Coal Trust	–	–		5,139,440	7,820,000	
Heating Oil Partners Income Fund	3,931,837	2,788,500		3,900,000	5,538,000	
Inter Pipeline Fund	3,082,999	4,159,098		3,082,999	3,523,428	
Keyspan Facilities Income Fund	4,235,556	5,036,500		–	–	
Superior Plus Income Fund	3,317,060	6,304,200		3,317,060	5,388,600	
Trinidad Energy Services Income Fund	4,485,000	6,003,000		–	–	
	27,743,645	46,815,385	13.8%	19,846,422	38,081,073	15.3%

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	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Real Estate Investment Trusts						
Cdn Hotel Income Properties REIT	–	–		4,093,498	3,656,250	
Firm Capital Mortgage Investment Trust	–	–		1,599,768	1,861,056	
H&R REIT	2,071,134	3,323,250		2,071,134	2,780,750	
IPC US Income Commercial REIT	6,271,105	6,360,000		3,479,284	3,566,310	
Morguard REIT	5,516,372	6,012,162		5,516,372	5,428,457	
Retirement Residences REIT	–	–		5,144,173	5,011,500	
RioCan REIT	–	–		2,953,350	4,207,500	
Royal Host REIT	–	–		3,331,766	2,099,811	
Summit REIT	5,400,000	5,406,000		–	–	
TGS North American REIT	5,305,500	4,895,000		3,500,000	3,409,000	
	24,564,111	25,996,412	7.7%	31,689,345	32,020,634	12.9%
Power Generation Investments						
Algonquin Power Income Fund	–	–		4,429,565	5,136,824	
Atlantic Power Corporation	4,700,000	5,052,500		–	–	
Boralex Power Income Fund	–	–		2,420,970	2,420,970	
Clean Power Income Fund	3,090,314	2,147,930		3,494,701	3,395,000	
Countryside Power Income Fund	5,422,962	5,180,000		–	–	
TransAlta Power L.P.	3,367,845	3,793,920		–	–	
	16,581,121	16,174,350	4.8%	10,345,236	10,952,794	4.4%
Investments	218,560,114	285,533,775	84.2%	169,464,331	205,041,348	82.4%
Cash and Term Deposits	53,547,806	53,547,806	15.8%	43,941,029	43,941,029	17.6%
Total	$ 272,107,920	$ 339,081,581	100.0%	$ 213,405,360	$ 248,982,377	100.0%

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Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified") is a closed-end investment trust established under the laws of Ontario pursuant to a Declaration of Trust dated as of July 11, 1997. The Fund commenced operations on September 16, 1997, when it completed an issue of 9,900,000 units at $10.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of year	23,369,936	$ 213,276,106	23,245,956	$ 212,046,516
Issued for cash:				
Exercise of rights, net	5,718,944	54,693,828	–	(20,564)
Issued for services (note 4)	466,053	4,893,556	293,080	2,857,530
Repurchase of trust units	(831,407)	(8,713,814)	(169,100)	(1,607,376)
Trust units – end of year	28,723,526	$ 264,149,676	23,369,936	$ 213,276,106

The weighted average number of units outstanding in 2004 was 24,711,964 units (2003 – 23,262,020 units).

On September 16, 2004, Citadel Diversified completed a rights offering. Under the terms of the rights offering, a total of 5,718,944 trust units were issued at a price of $9.70 per unit, resulting in net proceeds of $54.7 million.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation. This program is subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of such quarter. During 2004, 831,407 trust units (2003 – 169,100 units) were repurchased for cancellation under the program at an average cost of $10.48 per unit.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel Diversified Management Ltd. ("CDML") is the administrator of the Fund. Pursuant to the administrative services agreement, the administrative and investment management fees are based upon 1.5% of the average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. In 2004, 460,099 units (2003 – 286,671 units) were issued to CDML in respect of

twelve months of services ending September 16, 2005. During 2004, the Fund recorded an expense of $4,172,100 (2003 – $3,835,339) in respect of administrative and investment management fees units earned during the year. The amounts issued to CDML in 2004 and 2003 are included in units issued for services as shown in note 3. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from CDML of $42,159 (2003 – due to CDML $21,374 in accounts payable).

Directors of CDML received a total of 5,954 units in 2004 (2003 – 6,409 units) as payment for their annual retainers.

5. NOTE RECEIVABLE

As part of the March 2002 Exchange Offer, the Administrator and Investment Manager agreed to jointly pay $2.8 million of the total expenses of the Exchange Offer of $3.0 million in order to ensure that Citadel Diversified's net asset value increased by no less than $0.05 per unit. The Fund issued a non-interest bearing note receivable with no specified term to the Administrator and Investment Manager which was to be repaid from future management fees. The note was fully repaid during 2004 (2003 - $1,021,617).

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 74,246,870	$ 34,772,535
Less cost of securities sold:		
Investments at cost – beginning of year	169,464,331	163,369,635
Investments purchased during year	115,906,555	34,616,775
Investments at cost – end of year	(218,560,114)	(169,464,331)
Cost of investments disposed of during year	66,810,772	28,522,079
Net realized gain on sale of investments	$ 7,436,098	$ 6,250,456

7. CASH DISTRIBUTIONS

The Fund distributes monthly cash distributions equal to the cash distributions received by the Fund less estimated expenses. In 2004, the Fund distributed a portion of its realized capital gains by way of a special distribution of $0.08 per unit to unitholders of record on December 31, 2004.

	2004	2003
Net investment income for the year	$ 19,714,628	$ 19,542,848
Add fees paid by issuance of units	3,961,655	3,646,927
Realized capital gains distributed (cashflow retained)	2,525,267	(855,320)
Cash distributions	$ 26,201,550	$ 22,334,455
Cash distributions per unit	$ 1.04	$ 0.96

8. LOAN PAYABLE

The Fund maintains a revolving credit facility with a Canadian chartered bank for up to a maximum amount of $15,000,000 of which no amount was drawn as at December 31, 2004 (2003 – nil). Borrowings are collateralized by a demand debenture in the amount of $55,000,000 which provides a first floating charge over the Fund's assets. The credit facility bears interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances. The credit facility is a revolving facility that will revolve until June 30, 2005 and for a further 364 days at the option of the bank.

9. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

10. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, accounts receivable, revenue receivable, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

Citadel S-1 Income Trust Fund

Stock Symbol	**SDL.un (TSX)**
2004 High/Low	**$34.00 - $27.00**
2004 Distribution	**$3.296 per unit**
2004 Taxable %	**60%**
2004 Total Return	**31.7%**
2004 Management Expense Ratio	**1.6%**

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust which became listed on October 6, 2000 on the Toronto Stock Exchange. The Fund has a termination date of December 31, 2010 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust. Citadel S-1's investment objectives are to provide its unitholders with a high level of monthly distributions while maintaining an SR-1 stability rating and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of Canadian income funds, Canadian and U.S. high yielding investment grade debt and income yielding equity securities.

Pursuant to the Fund's distribution policy, Citadel S-1 pays monthly cash distributions targeted at $0.208 per trust unit. During 2004, the Fund paid total distributions of $3.296 per unit (2003 - $2.496 per unit) which included a special distribution of $0.80 per unit for unitholders of record on December 31, 2004 in addition to the regular monthly distributions. For tax purposes, 2004 distributions were allocated as 25.7% other taxable income, 2.9% dividend income, 65.3% capital gains and 6.1% return of capital. The net effective taxable portion of the 2004 distribution was approximately 60%. Since inception in October 2000 to December 2004, the Fund has generated an annualized compound rate of return of 17.6% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 32.52	$ 31.37	$ 29.98	$ 32.02	$ 30.18
Market Price per Unit [1]	$ 33.78	$ 30.75	$ 30.25	$ 30.90	$ 28.50
Trading Premium (Discount)	3.9%	(2.0%)	0.9%	(3.5%)	(5.6%)
Quarterly Distributions per Unit	$ 1.424	$ 0.624	$ 0.624	$ 0.624	$ 0.624
12 Month Trailing Yield	9.8%	8.1%	8.3%	8.1%	8.8%
Market Capitalization ($ millions)	$ 72.3	$ 64.9	$ 63.8	$ 65.6	$ 61.3

[1] Net asset value and market price per unit are based on quarter end values.

Management's Discussion & Analysis

(April 6, 2005)

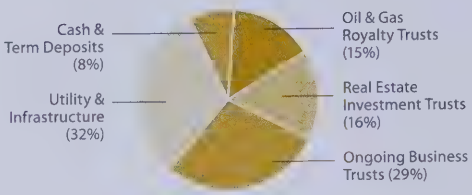
FINANCIAL RESULTS

For 2004, Citadel S-1 again saw its net asset value increase, closing the year at $69.6 million or $32.52 per unit, up from $64.9 million or $30.18 per unit at the end of 2003. This increase was the result of stronger valuations in all sectors of the Fund's portfolio. The Fund's market price also strengthened, rising from $28.50 at the end of 2003 to $33.78 at the end of 2004. Inclusive of the monthly distributions, the Fund generated a 31.7% total return in 2004 versus 10.7% in 2003. By comparison, the S&P/TSX income trust index generated a total return of 26.8% total return in 2004. Citadel S-1's superior return reflects the special distribution of $0.80 per unit paid to unitholders of record on December 31, 2004.

Total revenue for 2004 increased to $5.8 million from $5.6 million in 2003 reflecting the Fund's decision in 2003 to divest all of its holdings in fixed income investments and redeploy the proceeds in general business income funds, REITs and oil and gas royalty trusts. Total expenses for 2004 were $1.1 million compared to $1.0 million in 2003 reflecting slightly higher administrative and investment manager fees in 2004 as a result of the higher net asset value. Administrative and investment manager fees, which totaled $0.83 million in the year (2003 - $0.8 million) are payable in trust units of the Fund. Net investment income and net investment income per unit increased from $4.6 million and $2.16 per unit in 2003 to $4.7 million and $2.19 per unit in 2004. During 2004, Citadel S-1 paid total distributions of $7.0 million or $3.296 per unit compared to $5.3 million or $2.496 per unit in 2003, reflecting the $0.80 per unit special distribution declared at the end of 2004.

During the year, the Fund took profits on a number of investments which resulted in realized capital gains of $4.0 million. In addition, unrealized gains on the Fund's portfolio of $3.3 million generated total results of operations of $12.0 million or $5.61 per unit compared to $14.3 million or $6.71 per unit in 2003. Citadel S-1's portfolio based on market values at December 31, 2004 is shown in the chart below.

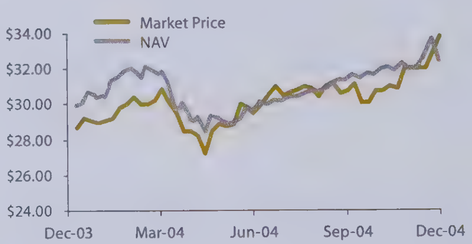
Portfolio Holdings



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

A total of 26,866 units were repurchased in the first quarter and an additional 12,200 units were repurchased in the second quarter as the discount exceeded the 5% threshold. Under this program, Citadel S-1 is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. The Fund's unit price traded at an average discount to net asset value of 2.1% during 2004 compared to an average premium of 2.7% in 2003.

Trading Premium (Discount)



STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2004, the Fund maintained its SR-1 stability rating and expects to maintain the rating in 2005.

RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

With its SR-1 stability rated portfolio, Citadel S-1 expects to maintain its current monthly distribution of $0.208 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

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Management's Responsibility Statement

The financial statements of Citadel S-1 Income Trust Fund have been prepared by Citadel S1 Management Ltd. ("CSML") and approved by the Board of Directors of CSML. CSML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CSML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

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The Audit Committee on behalf of CSML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel S1 Management Ltd.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
Citadel S1 Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Citadel S-1 Income Trust Fund

We have audited the statements of net assets and investments of Citadel S-1 Income Trust Fund as at December 31, 2004 and 2003 and the statements of operations and changes in net assets for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

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Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004-$49,614,900; 2003-$49,252,564)	$ 64,816,310	$ 61,174,385
Cash and term deposits	5,759,969	2,998,346
Prepaid expenses	726,963	595,738
Revenue receivable	448,599	542,661
Accounts receivable	45,546	9,090
	71,797,387	65,320,220
Liabilities		
Distributions payable	2,158,861	447,060
	2,158,861	447,060
Net Assets representing Unitholders' Equity	$ 69,638,526	$ 64,873,160
Units outstanding (note 3)	2,141,727	2,149,329
Net asset value per unit	$ 32.52	$ 30.18

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

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Statement of Operations

Year Ended December 31,		2004		2003
Revenue				
Investment income	$	5,784,171	$	5,613,809
		5,784,171		5,613,809
Expenses				
Administrative and investment manager fees (note 4)		829,867		779,334
General and administration costs		276,737		239,095
		1,106,604		1,018,429
Net investment income		4,677,567		4,595,380
Net realized gain on sale of investments (note 5)		4,004,434		2,710,284
Net change in unrealized gain on investments		3,279,590		6,971,908
Total results of operations	$	11,961,591	$	14,277,572
Results of operations per unit [1]				
Net investment income		$ 2.19		$ 2.16
Net realized gain on sale of investments		1.88		1.27
Net change in unrealized gain on investments		1.54		3.28
		$ 5.61		$ 6.71

[1] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Year Ended December 31,		2004		2003
Net Assets – beginning of year	$	64,873,160	$	55,111,996
Operations:				
Net investment income		4,677,567		4,595,380
Net realized gain on sale of investments		4,004,434		2,710,284
Net change in unrealized gain on investments		3,279,590		6,971,908
		11,961,591		14,277,572
Unitholder Transactions:				
Proceeds from issuance of trust units, net		969,284		794,318
Repurchase of trust units		(1,151,252)		–
		(181,968)		794,318
Distributions to Unitholders: (note 6)		(7,014,257)		(5,310,726)
Net Assets – end of year	$	69,638,526	$	64,873,160
Distributions per unit		$ 3.296		$ 2.496

see accompanying notes

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Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Utility & Infrastructure						
Algonquin Power Income Fund	$ 2,338,126	$ 2,603,822		$ 2,896,967	$ 3,158,437	
Boralex Power Income Fund	2,537,310	2,830,000		1,911,320	1,948,200	
Calpine Power Income Fund	–	–		1,222,436	1,559,250	
Clean Power Income Fund	2,490,800	1,804,400		2,490,800	2,522,000	
Inter Pipeline Fund	2,198,222	3,526,600		2,198,222	2,987,600	
Keyspan Facilities Income Fund	1,151,677	1,601,607		868,952	1,062,500	
Northland Power Income Fund	2,119,284	3,535,000		2,119,284	2,960,000	
Taylor NGL L.P.	1,015,080	1,296,534		–	–	
TransAlta Power, L.P.	3,380,872	3,794,944		815,236	1,198,800	
TransCanada Power, L.P.	956,732	1,136,000		3,199,074	3,884,100	
	18,188,103	22,128,907	31.3%	17,722,291	21,280,887	33.2%
Ongoing Business Trusts						
ACS Media Income Fund	1,176,450	1,081,000		1,176,450	1,242,000	
Amtelecom Income Fund	1,200,000	1,615,200		1,200,000	1,452,000	
Bell Nordiq Income Fund	1,060,000	1,623,000		1,060,000	1,399,000	
CML Healthcare Income Fund	965,430	1,201,500		–	–	
Clearwater Seafoods Income Fund	–	–		412,340	466,800	
Custom Direct Income Fund	900,000	1,035,000		900,000	932,400	
Energy Savings Income Fund	215,343	596,750		215,343	436,325	
Fording Canadian Coal Trust	–	–		1,360,350	2,070,000	
Heating Oil Partners Income Fund	1,190,445	679,250		1,190,445	1,349,000	
Noranda Income Fund	1,003,000	1,255,000		1,003,000	1,164,000	
Rogers Sugar Income Fund	1,157,831	1,125,000		1,157,831	900,000	
Royal LePage Franchise Services Fund	1,972,000	1,963,500		–	–	
SFK Pulp Fund	1,165,964	1,044,000		830,477	776,720	
Superior Plus Income Fund	1,491,011	3,122,080		2,007,131	3,592,400	
TransForce Income Fund	1,002,664	1,979,900		1,207,825	1,495,530	
UE Waterheater Income Fund	807,000	1,061,205		807,000	923,208	
Yellow Pages Income Fund	956,250	1,146,650		–	–	
	16,263,388	20,529,035	29.1%	14,528,192	18,199,383	28.3%
Real Estate Investment Trusts						
Borealis Retail REIT	1,311,958	1,739,400		1,311,958	1,517,100	
Calloway REIT	936,600	1,672,500		936,600	1,113,368	
Cdn Hotel Income Properties REIT	–	–		1,479,496	1,560,000	
Dundee REIT	1,216,800	1,536,000		1,216,800	1,404,000	
Firm Capital Mortgage Investment Trust	1,743,637	2,050,200		1,076,230	1,272,240	
RioCan REIT	1,914,435	3,550,000		3,063,096	4,896,000	
TGS North American REIT	975,502	979,000		–	–	
	8,098,932	11,527,100	16.3%	9,084,180	11,762,708	18.3%
Oil & Gas Royalty Trusts						
ARC Energy Trust	1,930,311	2,953,500		2,456,760	3,095,400	
Bonavista Energy Trust	711,351	1,097,550		711,351	850,095	
Enerplus Resources Fund	1,417,607	2,398,000		1,804,227	2,754,500	
Paramount Energy Trust	1,051,458	1,315,050		991,813	902,864	
Shiningbank Energy Income Fund	896,250	1,358,168		896,250	1,178,048	
Vermilion Energy Trust	1,057,500	1,509,000		1,057,500	1,150,500	
	7,064,477	10,631,268	15.1%	7,917,901	9,931,407	15.5%
Investments	49,614,900	64,816,310	91.8%	49,252,564	61,174,385	95.3%
Cash and Term Deposits	5,759,969	5,759,969	8.2%	2,998,346	2,998,346	4.7%
Total	$ 55,374,869	$ 70,576,279	100.0%	$ 52,250,910	$ 64,172,731	100.0%

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Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2000. The Fund commenced operations on October 6, 2000, when it completed an issue of 1,850,000 units at $25.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

(a) **Cash and cash equivalents**

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) **Valuation of investments**

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) **Canadian income taxes**

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) **Investment income**

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of year	2,149,329	$ 50,484,091	2,120,483	$ 49,689,773
Issued for services (note 4)	31,464	969,284	28,846	794,318
Repurchase of trust units	(39,066)	(1,151,252)	–	–
Trust units – end of year	2,141,727	$ 50,302,123	2,149,329	$ 50,484,091

The weighted average number of units outstanding in 2004 was 2,126,237 units (2003 – 2,127,359 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of such quarter. Citadel S-1 repurchased 39,066 trust units (2003 - no units) under this repurchase program during 2004 at an average cost of $29.47 per unit.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel S1 Management Ltd. ("CSML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.25% of the average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. In October 2004, the administrator and investment manager were issued 29,431 units (2003 – 26,545 units) for the next twelve months of services. During 2004, the Fund recorded an expense of $829,867 (2003 – $779,334) in respect of the administrative and investment management fee units earned during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from CSML of $45,546 (2003 - $9,090).

Directors of CSML received a total of 2,033 units in 2004 (2003 – 2,301 units) as payment for their annual retainers.

5. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

		2004		2003
Net proceeds from the sale of securities	$	17,310,867	$	27,052,283
Less cost of securities sold:				
Investments at cost – beginning of year		49,252,564		49,149,785
Investments purchased during year		13,668,769		24,444,778
Investments at cost – end of year		(49,614,900)		(49,252,564)
Cost of investments disposed of during year		13,306,433		24,341,999
Net realized gain on sale of investments	$	4,004,434	$	2,710,284

6. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at $0.208 per unit based upon cash distributions received by the Fund less estimated expenses. In 2004, the Fund distributed a portion of its realized gains by way of a special distribution of $0.80 per unit to unitholders of record on December 31, 2004.

		2004		2003
Net investment income for the year	$	4,677,567	$	4,595,380
Add fees paid by issuance of units		838,059		793,524
Realized capital gains distributed (cashflow retained)		1,498,631		(78,178)
Cash distributions	$	7,014,257	$	5,310,726
Cash distributions per unit		$ 3.296		$ 2.496

7. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

8. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, accounts receivable, revenue receivable, and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

Citadel HYTES Fund

Stock Symbol	**CHF.un (TSX)**
2004 High/Low	**$35.00 - $27.95**
2004 Distribution	**$3.87 per unit**
2004 Taxable %	**64%**
2004 Total Return	**28.6%**
2004 Management Expense Ratio	**1.9%**

Citadel HYTES Fund (the "Fund" or "Citadel HYTES") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on April 11, 2001. The Fund has a termination date of December 31, 2011, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Citadel HYTES' investment objectives are to provide its unitholders with stable, sustainable and predominantly tax deferred distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of oil & gas royalty trusts, real estate investment trusts, income funds, limited partnerships, Canadian high yielding investment grade debt and income yielding equity securities.

Pursuant to the Fund's distribution policy, Citadel HYTES pays monthly cash distributions targeted at $0.26 per trust unit. During 2004, the Fund paid total distributions of $3.87 per unit (2003 - $3.14 per unit), which included a special distribution of $0.75 per unit for unitholders of record on December 31, 2004 in addition to the regular monthly distributions. For tax purposes the distributions were allocated as 33.7% other taxable income, 3.7% dividend income, 56.3% capital gains and 6.3% return of capital. The Fund's distributions were more taxable than expected in 2004 due to substantial capital gains realized during the year. The net effective current taxable portion of the 2004 distributions was approximately 64% due to the high capital gains component. Since inception in April 2001 to December 2004, the Fund has generated an annualized compound rate of return of 21.8% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 35.07	$ 33.80	$ 32.11	$ 33.27	$ 31.48
Market Price per Unit [1]	$ 34.16	$ 33.17	$ 30.05	$ 31.32	$ 29.95
Trading Premium (Discount)	(2.6%)	(1.9%)	(6.4%)	(5.9%)	(4.9%)
Quarterly Distributions per Unit	$ 1.53	$ 0.78	$ 0.78	$ 0.78	$ 0.78
12 Month Trailing Yield	11.3%	9.4%	10.4%	10.0%	10.5%
Market Capitalization ($ millions)	$ 189.0	$ 183.0	$ 165.5	$ 174.0	$ 168.0

[1] Net asset value and market price per unit are based on quarter end values.

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

2004 was yet another year of continued growth in net asset value for Citadel HYTES. Net assets increased from $176.6 million or $31.48 per unit at December 31, 2003 to $194.0 million or $35.07 per unit at the end of 2004. The Fund's unit price also improved with the stronger net asset value, gaining over 14% during the year, closing the year at $34.16 per unit at December 31, 2004. Inclusive of distributions, the Fund generated a total return of 28.6% for 2004. By comparison, the S&P/TSX income trust index provided a 26.8% total return.

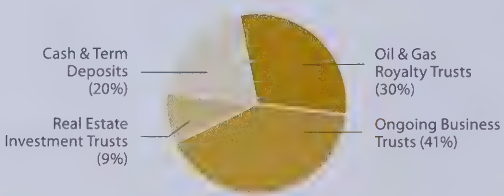
Total revenue for the year was $18.2 million compared to $20.4 million in 2003. This decline in revenue is attributed to higher cash balances and overall lower relative yields experienced as a result of portfolio turnover in 2004. Administrative and investment manager fees, payable in units of the Fund, totaled $2.3 million in 2004, up from $2.0 million in 2003 due to a higher net asset value year over year. Trailer fees, totaling $0.7 million for 2004, were up from the previous year's total of $0.6 million due to a higher net asset value. General and administration costs totaled $0.5 million for the year, up from $0.3 million in the previous year due to costs associated with a special meeting of unitholders held in March 2004, as well as general cost increases. Loan interest costs, totaling

$0.5 million, remained consistent year over year. After total expenses of $4.0 million in 2004 ($3.5 million in 2003), the Fund generated net investment income of $14.2 million ($2.56 per unit) compared to $16.9 million ($3.01 per unit) in 2003. During 2004, Citadel HYTES paid distributions to unitholders of $21.4 million or $3.87 per unit compared to $17.6 million or $3.14 per unit in 2003. Distributions in 2004 included a special year end distribution of $0.75 per unit.

Throughout the year, the Fund took profits on a number of its investments, resulting in realized gains of $7.5 million (2003 - $5.1 million). Results of operations totaled $41.1 million in 2004, driven by strong unrealized gains of $19.5 million, net investment income of $14.2 million and realized gains of $7.5 million. In comparison, total results of operations for 2003 were $43.7 million, comprised of unrealized gains of $21.7 million, net investment income of $16.9 million and realized gains of $5.1 million. On a per unit basis, total results of operation were $7.43 per unit in 2004 compared to $7.80 in 2003.

As a result of dispositions made throughout 2004, the Fund reduced its weightings in REITs and ongoing business trusts while adding to its cash position. As at December 31, 2004 Citadel HYTES' portfolio based on market values is depicted below.

Portfolio Holdings



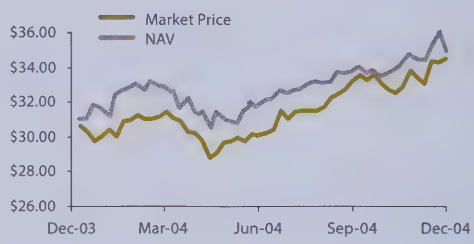
SPECIAL MEETING OF UNITHOLDERS

On March 30, 2004, a Special Meeting of unitholders was held to approve the continuation of paying the administrative and investment manager fees in units and also to approve the extension of the term of the Fund by an additional 5 years to December 31, 2011. At the Special Meeting, unitholders voted in favor of both items.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

Despite Citadel HYTES' strong performance in 2004, its unit price traded at a discount to net asset value throughout of the year. The average discount to its net asset value in 2004 was 4.3% compared to an average discount of 2.8% in 2003. Under its mandatory repurchase program, Citadel HYTES is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. During 2004, a total of 146,987 units were purchased for cancellation under this program compared to 43,600 in 2003.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

Citadel HYTES expects to maintain its monthly distribution rate of $0.26 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio. The Fund is well positioned with its cash position to take advantage of opportunities as they arise.

Management's Responsibility Statement

The financial statements of Citadel HYTES Fund have been prepared by Citadel TEF Management Ltd. ("CTEF") and approved by the Board of Directors of CTEF. CTEF is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CTEF maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CTEF is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of CTEF and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel TEF Management Ltd.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
Citadel TEF Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Citadel HYTES Fund

We have audited the statements of net assets and investments of Citadel HYTES Fund as at December 31, 2004 and 2003 and the statements of operations and changes in net assets for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31 , 2005

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Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $117,371,330; 2003- $134,752,786)	$ 170,214,235	$ 168,142,368
Cash and term deposits	41,277,982	21,743,952
Revenue receivable	1,436,583	1,532,059
Prepaid expenses	334,215	324,657
Accounts receivable	62,323	–
	213,325,338	191,743,036
Liabilities		
Accounts payable and accrued liabilities	188,138	185,073
Distributions payable	5,588,809	1,458,570
Loan payable (note 8)	13,500,000	13,500,000
	19,276,947	15,143,643
Net Assets representing Unitholders' Equity	$ 194,048,391	$ 176,599,393
Units outstanding (note 3)	5,533,474	5,609,885
Net asset value per unit	$ 35.07	$ 31.48

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

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Statement of Operations

Year Ended December 31,	2004	2003
Revenue		
Investment income	$ 18,194,257	$ 20,356,650
	18,194,257	20,356,650
Expenses		
Administrative and investment manager fees (note 4)	2,288,451	2,010,866
Trailer fee (note 5)	724,232	634,479
General and administration costs	523,715	333,479
Loan interest	468,282	499,423
	4,004,680	3,478,247
Net investment income	14,189,577	16,878,403
Net realized gain on sale of investments (note 6)	7,506,099	5,085,632
Net change in unrealized gain on investments	19,453,323	21,735,984
Total results of operations	$ 41,148,999	$ 43,700,019
Results of operations per unit [(1)]		
Net investment income	$ 2.56	$ 3.01
Net realized gain on sale of investments	1.36	0.91
Net change in unrealized gain on investments	3.51	3.88
	$ 7.43	$ 7.80

[(1)] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Year Ended December 31,	2004	2003
Net Assets – beginning of year	$ 176,599,393	$ 149,768,328
Operations:		
Net investment income	14,189,577	16,878,403
Net realized gain on sale of investments	7,506,099	5,085,632
Net change in unrealized gain on investments	19,453,323	21,735,984
	41,148,999	43,700,019
Unitholder Transactions:		
Proceeds from issuance of trust units, net	2,201,259	1,941,853
Repurchase of trust units	(4,493,027)	(1,195,106)
	(2,291,768)	746,747
Distributions to Unitholders: (note 7)	(21,408,233)	(17,615,701)
Net Assets – end of year	$ 194,048,391	$ 176,599,393
Distributions per unit	$ 3.87	$ 3.14

see accompanying notes

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Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Ongoing Business Trusts						
ACS Media Income Fund	$ –	$ –		$ 1,404,560	$ 1,585,440	
Advanced Fiber Technologies Income Fund	–	–		1,514,500	1,852,500	
Atlas Cold Storage Income Trust	–	–		972,995	652,780	
The Brick Group Income Fund	4,750,000	6,631,000		–	–	
Chemtrade Logistics Income Fund	2,400,000	4,872,000		2,400,000	4,332,000	
Cineplex Galaxy Income Fund	3,968,123	5,828,550		1,810,079	1,843,250	
Custom Direct Income Fund	2,650,000	3,047,500		2,650,000	2,745,400	
Davis + Henderson Income Fund	4,129,467	9,080,000		4,129,467	6,980,000	
Energy Savings Income Fund	1,125,000	8,662,500		2,000,000	11,260,000	
Fording Canadian Coal Trust	–	–		3,929,900	5,980,000	
Great Lakes Carbon Income Fund	3,151,897	3,341,520		3,151,897	3,403,400	
Halterm Income Fund	–	–		3,305,658	1,767,000	
Heating Oil Partners Income Fund	2,990,000	2,137,850		2,990,000	4,245,800	
IBI Income Fund	3,500,000	3,937,500		–	–	
KCP Income Fund	–	–		3,105,000	3,788,100	
Livingston International Income Fund	1,800,000	4,041,000		1,800,000	2,925,000	
Medical Facilities Corp.	4,040,225	4,865,410		–	–	
Menu Foods Income Fund	–	–		477,000	658,260	
Priszm Canadian Income Fund	2,850,000	4,212,300		2,850,000	2,978,250	
Rogers Sugar Income Fund	4,209,000	4,950,000		3,420,000	3,240,000	
ROW Entertainment Income Fund	3,102,379	3,674,484		2,706,729	2,885,662	
SFK Pulp Fund	5,772,405	4,422,500		5,505,234	4,389,760	
Sun Gro Horticulture Income Fund	–	–		4,500,000	3,487,500	
Superior Plus Income Fund	3,538,193	7,054,700		3,538,193	6,030,100	
TransForce Income Fund	3,894,502	6,899,190		3,694,100	4,150,430	
UE Waterheater Income Fund	–	–		1,178,000	1,347,632	
	57,871,191	87,658,004	41.5%	63,033,312	82,528,264	43.5%
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	3,749,251	4,475,491		–	–	
Advantage Energy Income Fund	1,545,070	4,402,000		1,545,070	3,588,000	
APF Energy Trust	–	–		2,763,000	3,135,000	
ARC Energy Trust	9,846,243	14,320,000		10,769,328	12,897,500	
Baytex Energy Trust	1,202,000	1,277,000		–	–	
Bonavista Energy Trust	1,978,493	2,382,090		–	–	
Enerplus Resources Fund	4,041,325	6,540,000		6,061,988	8,853,750	
NAL Oil & Gas Trust	2,250,000	3,387,500		2,250,000	2,735,000	
Paramount Energy Trust	4,959,586	6,535,400		2,524,312	2,286,944	
Pengrowth Energy Trust	–	–		4,803,400	5,100,000	
Shiningbank Energy Income Fund	4,657,314	6,447,000		4,657,314	5,592,000	
Vermilion Energy Trust	5,658,973	8,048,000		5,658,973	6,136,000	
Viking Energy Royalty Trust	5,227,875	5,737,500		6,273,450	5,763,000	
	45,116,130	63,551,981	30.0%	47,306,835	56,087,194	29.5%
Real Estate Investment Trusts						
Cdn Hotel Income Properties REIT	–	–		2,851,565	3,168,750	
InnVest REIT	3,010,470	4,105,500		3,010,470	3,933,000	
Morguard REIT	3,717,339	4,557,750		3,717,339	4,115,250	
O & Y REIT	3,500,000	4,935,000		4,500,000	5,287,500	
Retirement Residences REIT	–	–		2,140,305	2,313,000	
RioCan REIT	–	–		2,078,790	3,182,400	
Summit REIT	4,156,200	5,406,000		4,156,200	5,448,000	
	14,384,009	19,004,250	9.0%	22,454,669	27,447,900	14.5%
Utility & Infrastructure						
Algonquin Power Income Fund	–	–		1,957,970	2,079,010	
	–	–	0%	1,957,970	2,079,010	1.1%
Investments	117,371,330	170,214,235	80.5%	134,752,786	168,142,368	88.6%
Cash and Term Deposits	41,277,982	41,277,982	19.5%	21,743,952	21,743,952	11.4%
Total	$ 158,649,312	$ 211,492,217	100.0%	$ 156,496,738	$ 189,886,320	100.0

Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Citadel HYTES Fund (the "Fund" or "Citadel HYTES") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of February 27, 2001. The Fund commenced operations on April 11, 2001, when it completed an issue of 5,000,000 units at $25.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recorded on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of year	5,609,885	$ 132,445,069	5,582,119	$ 131,698,322
Issued for services (note 4)	70,576	2,201,259	71,366	1,941,853
Repurchase of trust units	(146,987)	(4,493,027)	(43,600)	(1,195,106)
Trust units – end of year	5,533,474	$ 130,153,301	5,609,885	$ 132,445,069

The weighted average number of units outstanding in 2004 was 5,537,361 units (2003 – 5,608,005 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of such quarter. During 2004, Citadel HYTES repurchased 146,987 trust units (2003 – 43,600 units) under this program at an average cost of $30.57 per unit.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel TEF Management Ltd. ("CTEF") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund payable in units monthly in arrears. During 2004, a total of 68,556 units were issued pursuant to these agreements (2003 – 68,979 units) and the Fund recorded an expense of $2,288,451 (2003 - $2,010,866) in respect of the administrative and investment management fees during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. Included in accounts receivable were amounts owed from CTEF of $62,323 at December 31, 2004 (2003 - $16,776 in accounts payable).

Directors of CTEF received a total of 2,020 units in 2004 (2003 – 2,387 units) as payment for their annual retainers.

5. TRAILER FEE

Citadel HYTES pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $724,232 (2003 - $634,479) relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 50,353,065	$ 52,941,425
Less cost of securities sold:		
Investments at cost – beginning of year	134,752,786	147,080,159
Investments purchased during year	25,465,510	35,528,420
Investments at cost – end of year	(117,371,330)	(134,752,786)
Cost of investments disposed of during year	42,846,966	47,855,793
Net realized gain on sale of investments	$ 7,506,099	$ 5,085,632

7. CASH DISTRIBUTIONS

The Fund pays out targeted monthly cash distributions of $0.26 per unit based upon cash distributions received by the Fund less estimated expenses. In 2004, the Fund distributed a portion of its realized gains by way of a special distribution of $0.75 per unit to unitholders of record on December 31, 2004.

	2004	2003
Net investment income for the year	$ 14,189,577	$ 16,878,403
Add fees paid by issuance of units	2,201,259	1,941,844
Realized capital gains distributed (cashflow retained)	5,017,397	(1,204,546)
Cash distributions	$ 21,408,233	$ 17,615,701
Cash distributions per unit	$ 3.87	$ 3.14

8. LOAN PAYABLE

The Fund maintains a credit facility with a Canadian chartered bank for up to a maximum amount of $23.5 million of which $13.5 million relates to a term facility and $10.0 million relates to an operating facility. The term facility was fully drawn as at December 31, 2004 and 2003 and is due and payable on the earlier of December 31, 2006 or termination of the Fund. The operating facility is available until December 31, 2006. Borrowings are collateralized by a general security agreement which provides a first floating charge over the Fund's assets. The term and operating credit facilities bear interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances.

9. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

10. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, revenue receivable, accounts receivable, accounts payable and accrued liabilities, distributions payable and loan payable approximate their carrying amount due to the short-term maturity of these instruments.

Citadel SMaRT Fund

Stock Symbol	**CRT.un (TSX)**
2004 High/Low	**$32.99 - $27.30**
2004 Distribution	**$5.146 per unit**
2004 Taxable %	**52%**
2004 Total Return	**26.0%**
2004 Management Expense Ratio	**2.1%**

Citadel SMaRT Fund (the "Fund" or "Citadel SMaRT") is a mutual fund investment trust which became listed on the Toronto Stock Exchange on September 14, 2001. The Fund has a termination date of December 31, 2013 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust. Citadel SMaRT has been structured to provide investors with monthly cash distributions derived from a managed portfolio of royalty trust units, as selected by and actively managed by the Fund's investment manager, combined with capital protection of 70% of the original investment or $17.50 per unit on the termination of the Fund obtained through a forward sale of securities purchased with approximately 34% of the proceeds of the Fund's initial public offering.

Pursuant to the Fund's distribution policy, Citadel SMaRT pays monthly cash distributions targeted at $0.208 per trust unit. During 2004, the Fund paid total distributions of $5.146 per unit (2003 - $2.496 per unit), which included a special distribution of $2.65 per unit paid to unitholders of record on December 31, 2004. This special distribution was paid out of realized gains on the sale of securities during the year. For tax purposes, the 2004 distributions have been allocated as 12.2% other taxable income, 0.1% dividend income, 80.5% capital gains and 7.2% return of capital. The net effective current taxable portion of the 2004 distribution was approximately 52%. Since inception in September 2001 to December 2004, the Fund has generated an annualized compound rate of return of 18.8% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS:

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 31.01	$ 33.22	$ 30.34	$ 31.29	$ 30.35
Market Price per Unit [1]	$ 30.30	$ 31.33	$ 28.70	$ 29.62	$ 28.36
Trading Premium (Discount)	(2.3%)	(5.7%)	(5.4%)	(5.3%)	(6.6%)
Quarterly Distributions per Unit	$ 3.274	$ 0.624	$ 0.624	$ 0.624	$ 0.624
12 Month Trailing Yield	17.0%	8.0%	8.7%	8.4%	8.8%
Market Capitalization ($ millions)	$ 108.1	$ 123.1	$ 115.9	$ 132.0	$ 138.6

[1] Net asset value and market price per unit are based on quarter end values.

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

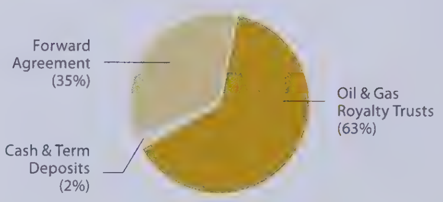
Continued high oil and gas prices helped sustain the Fund's net asset value per unit during 2004, with the net asset value closing the year at $31.01 per unit up from $30.35 per unit at the end of 2003. However, unitholder redemptions and unit repurchases reduced total net assets from $148.3 million at the end of 2003 to $110.6 million at the end of 2004. The market price of the Fund closed the year at $30.30 per unit, up from $28.36 per unit at the end of 2003. At the end of 2004, the Fund declared a special distribution of $2.65 per unit to unitholders of record on December 31 which was derived from realized capital gains. Distributions, combined with the Fund's strengthening unit price over the year, provided unitholders with a 26.0% total return. By comparison, the S&P/TSX energy trust index generated a 30.5% total return. It is important to note that Citadel SMaRT provides $17.50 per unit of capital protection to its unitholders in addition to yield.

Citadel SMaRT's total revenue declined year over year as unit redemptions and repurchases eroded total net assets. Administrative and investment manager fees and trailer fees also declined in 2004 in relation to the Fund's net asset value. Administrative and investment manager fees were $1.5 million in 2004 compared to $1.8 million in 2003, while trailer and service fees totaled $0.9 million in 2004 compared to $1.1 million in 2003. Similarly, general and administration costs declined in 2004 from $0.5 million in 2003 to $0.37 million in 2004. Net investment income declined to $8.2 million ($1.99 per unit) in 2004 compared to $12.5 million ($2.26 per unit) in 2003.

In order to meet quarterly redemptions and unit repurchases during 2004, the Fund was required to liquidate a portion of its royalty trust portfolio and forward securities portfolio. As a result, the Fund realized significant gains of $8.1 million on the disposition of certain royalty trusts and gains of $5.4 million on the forward securities. The change in unrealized gains on both the royalty trusts and the forward agreement totaled $1.3 million for the year compared to gains of $21.9 million posted in the prior year. Total results of operations were $22.9 million or $5.57 per unit in 2004 compared to $32.3 million or $5.84 per unit in 2003.

Citadel SMaRT's portfolio at December 31, 2004 is as shown below.

Portfolio Holdings

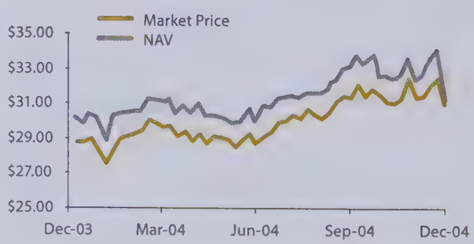


TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2004, Citadel SMaRT's market price continued to trade at a discount to its net asset value. As a result of this weakness, the Fund utilized its mandatory repurchase program to repurchase 124,666 units (2003 – 286,339 units) for cancellation at an average cost of $29.99 per unit. Under its mandatory repurchase program, Citadel SMaRT is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

As can be seen in the chart below, Citadel SMaRT's unit price traded at an average discount to net asset value of 4.5% in 2004 (2003 - 5.3% discount).

Trading Premium (Discount)



REDEMPTIONS AND NORMAL COURSE ISSUER BID

Unitholders of the Fund are entitled to redeem their units on January 31, April 30, July 31 and October 31 of each year for a price equal to the Fund's net asset value less $0.80 per unit. During 2004, unitholders exercised their right to redeem on the quarterly redemption dates for a total of 1,166,084 units at an average cost of $30.51 per unit compared to 874,832 units in 2003 at an average cost of $27.13 per unit.

In February 2004, Citadel SMaRT implemented a normal course issuer bid, whereby the Fund could repurchase up to 448,358 units over the next twelve months. Up to December 31, 2004, the Fund had repurchased 26,500 units pursuant to this issuer bid.

RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

With the Fund's current portfolio, the capital gains expected to be realized and analysts' current estimates of distributions from the portfolio, Citadel SMaRT expects to maintain its targeted monthly distribution rate of $0.208 per unit in 2005.

Management's Responsibility Statement

The financial statements of Citadel SMaRT Fund have been prepared by Citadel CPRT Management Ltd. ("CPRT") and approved by the Board of Directors of CPRT. CPRT is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CPRT maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CPRT is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of CPRT and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel CPRT Management Ltd.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
Citadel CPRT Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Citadel SMaRT Fund

We have audited the statements of net assets and investments of Citadel SMaRT Fund as at December 31, 2004 and 2003, and the statements of operations and changes in net assets for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $72,293,810; 2003- $102,505,463)	$ 118,015,038	$ 146,958,164
Cash and term deposits	2,323,907	1,537,002
Revenue receivable	744,429	1,164,790
Accounts receivable	19,624	–
	121,102,998	149,659,956
Liabilities		
Accounts payable and accrued liabilities	264,404	389,760
Distributions payable	10,197,918	1,016,174
	10,462,322	1,405,934
Net Assets representing Unitholders' Equity	$ 110,640,676	$ 148,254,022
Units outstanding (note 3)	3,568,201	4,885,451
Net asset value per unit	$ 31.01	$ 30.35

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

Year Ended December 31,	2004	2003
Revenue		
Investment income	$ 10,973,537	$ 15,952,314
	10,973,537	15,952,314
Expenses		
Administrative and investment manager fees (note 5)	1,517,855	1,813,685
Trailer and service fees (note 6)	898,112	1,116,569
General and administration costs	365,752	494,969
	2,781,719	3,425,223
Net investment income	8,191,818	12,527,091
Net realized gain on sale of investments (note 7)	8,073,964	2,574,130
Net realized gain (loss) on forward agreement (note 7)	5,386,352	(4,691,251)
Net change in unrealized gain on investments	3,477,708	14,337,257
Net change in unrealized gain (loss) on forward agreement	(2,209,182)	7,578,201
Total results of operations	$ 22,920,660	$ 32,325,428
Results of operations per unit (1)		
Net investment income	$ 1.99	$ 2.26
Net realized gain on sale of investments	1.96	0.47
Net realized gain (loss) on forward agreement	1.31	(0.85)
Net change in unrealized gain on investments	0.85	2.59
Net change in unrealized gain (loss) on forward agreement	(0.54)	1.37
	$ 5.57	$ 5.84

(1) Based on the weighted average number of units outstanding.

see accompanying notes

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Statement of Changes in Net Assets

Year Ended December 31,	2004	2003
Net Assets – beginning of year	$ 148,254,022	$ 161,406,609
Operations:		
Net investment income	8,191,818	12,527,091
Net realized gain on sale of investments	8,073,964	2,574,130
Net realized gain (loss) on forward agreement	5,386,352	(4,691,251)
Net change in unrealized gain on investments	3,477,708	14,337,257
Net change in unrealized gain (loss) on forward agreement	(2,209,182)	7,578,201
	22,920,660	32,325,428
Unitholder Transactions:		
Repurchase of trust units	(40,839,206)	(31,706,691)
Distributions to Unitholders (note 8)	(19,694,800)	(13,771,324)
Net Assets – end of year	$ 110,640,676	$ 148,254,022
Distributions per unit	$ 5.146	$ 2.496

see accompanying notes

Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	$ 6,352,752	$ 8,571,658		$ 5,614,345	$ 6,404,640	
Advantage Energy Income Fund	1,875,699	5,502,500		4,501,679	10,764,000	
APF Energy Fund Trust	3,578,632	4,395,000		5,725,811	7,524,000	
ARC Energy Trust	7,997,236	12,530,000		9,139,699	11,792,000	
Bonavista Energy Trust	549,696	758,800		–	–	
Enerplus Resources Fund	5,616,767	8,720,000		5,116,459	7,870,000	
NAL Oil & Gas Trust	3,544,509	5,420,000		3,544,509	4,376,000	
Paramount Energy Trust	5,137,104	6,455,700		5,097,232	4,688,819	
Pengrowth Energy Trust	–	–		4,308,185	6,375,000	
Petrofund Energy Trust	2,577,494	4,292,750		–	–	
PrimeWest Energy Trust	–	–		4,260,000	4,134,000	
Shiningbank Energy Income Fund	5,773,061	9,670,500		7,587,085	11,023,696	
Ultima Energy Trust	–	–		4,764,145	7,176,000	
Vermilion Energy Trust	5,081,000	8,048,000		5,081,000	6,136,000	
Viking Energy Royalty Trust	1,685,203	1,856,250		7,047,210	6,497,500	
	49,769,153	76,221,158	63.4%	71,787,359	94,761,655	63.8%
Forward Agreement (note 4)	22,524,657	41,793,880	34.7%	30,718,104	52,196,509	35.2%
Investments	72,293,810	118,015,038	98.1%	102,505,463	146,958,164	99.0%
Cash and Term Deposits	2,323,907	2,323,907	1.9%	1,537,002	1,537,002	1.0%
Total	$ 74,617,717	$ 120,338,945	100.0%	$ 104,042,465	$ 148,495,166	100.0%

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Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Citadel SMaRT Fund (the "Fund" or "Citadel SMaRT") is an open-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of July 19, 2001. The Fund commenced operations on September 14, 2001, when it completed an issue of 7,600,000 units at $25.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments and on the forward agreement. Investment transactions are recorded on the trade date. The Forward Agreement is recorded at its fair value on the valuation date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of year	4,885,451	$ 102,136,453	6,046,622	$ 133,843,144
Repurchase of trust units	(1,317,250)	(40,839,206)	(1,161,171)	(31,706,691)
Trust units – end of year	3,568,201	$ 61,297,247	4,885,451	$ 102,136,453

The weighted average number of units outstanding in 2004 was 4,110,376 units (2003 – 5,535,346 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of such quarter. During 2004, Citadel SMaRT repurchased 124,666 trust units (2003 – 286,339 units) under this repurchase program at an average cost of $29.99 per unit.

Unitholders have the right to redeem their units on each of January 31, April 30, July 31 and October 31. Unitholders who redeem are entitled to a redemption price per unit equal to the Fund's net asset value per unit less $0.80 per unit. During 2004, a total of 1,166,084 units were redeemed (2003 – 874,832 units) and cancelled.

On February 20, 2004 the Fund entered into a normal course issuer bid whereby a total of 448,358 units may be repurchased for cancellation over a period of twelve months. Up to December 31, 2004 the Fund had repurchased 26,500 units for cancellation pursuant to this bid.

4. FORWARD AGREEMENT

The Fund has entered into Forward Agreements with Merrill Lynch Canada Inc. ("ML") and Bank of Montreal ("BMO") pursuant to which ML and BMO will pay the Fund an amount which equals $17.50 for each unit currently outstanding (70% of initial capital) on the termination date in exchange for the Fund delivering to ML and BMO the equity securities in a fixed portfolio. The securities in the fixed portfolio had a cost of $22.5 million at December 31, 2004 and were comprised of common shares of ATI Technologies (781,030 shares), Cognos Inc. (304,865 shares), Cott Corporation (171,003 shares), Masonite International Corp. (285,024 shares) and Precision Drilling Corp. (40,491 shares).

The securities in the fixed portfolio had a cost of $30.7 million at December 31, 2003 and were comprised of common shares of ATI Technologies Inc. (830,947 shares), Cognos Inc. (304,865 shares), Cott Corporation (171,003 shares), Inco Ltd. (199,271 shares), Masonite International Corp. (285,024 shares), Precision Drilling Corp. (97,720 shares), and Tembec Inc. (85,244 shares).

Securities in the fixed portfolio have been pledged to ML and BMO as security for the obligations of the Fund under the Forward Agreements. The Forward Agreements are each a direct obligation of ML and BMO, respectively, and both companies have credit ratings of Moody's – Aa3. The Forward Agreements may be physically or cash settled at the option of the Fund. The Forward Agreements may be settled in whole or in part in respect of any valuation date by the Fund tendering to ML or BMO securities of the fixed portfolio at a price equal to the current market value of the Forward Agreements.

5. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel CPRT Management Ltd. ("CPRT") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, administrative and investment management fees are based upon 1.1% of the average daily net asset value of the Fund, payable in cash monthly in arrears. For 2004, the Fund recorded an expense of $1,517,855 (2003 - $1,813,685) in respect of administration and investment management fees earned during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from CPRT of $19,624 (2003 - $58,143 included in accounts payable).

Directors of CPRT are paid a total of $62,500 in cash as payment for their annual retainers.

6. TRAILER AND SERVICE FEES

Citadel SMaRT pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. An annual service fee of approximately 0.43% is payable by the Fund to ML and BMO on the guaranteed value of the Forward Agreements. An additional annual service fee of 0.25% and 0.10% is payable to ML and BMO, respectively, relating to costs incurred by them under the Forward Agreements. During 2004, the Fund recorded an expense of $518,970 (2003 - $617,976) relating to trailer fees and $379,142 (2003 - $498,593) relating to service fees.

7. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 32,943,745	$ 15,594,659
Less cost of securities sold:		
Investments at cost – beginning of year	71,787,359	63,712,961
Investments purchased during year	2,851,575	21,094,927
Investments at cost – end of year	(49,769,153)	(71,787,359)
Cost of investments disposed of during year	24,869,781	13,020,529
Net realized gain on sale of investments	$ 8,073,964	$ 2,574,130

The net realized gain (loss) on the sale of forward agreement was determined as follows:

	2004	2003
Proceeds from the sale of securities	$ 13,579,799	$ 11,206,047
Less cost of securities sold:		
Investments at cost – beginning of year	30,718,104	46,615,402
Investments at cost – end of year	(22,524,657)	(30,718,104)
Cost of investments disposed of during year	8,193,447	15,897,298
Net realized gain (loss) on sale of investments	$ 5,386,352	$ (4,691,251)

8. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at $0.208 per unit based upon investment income received by the Fund less estimated expenses. In 2004, a special distribution of $2.65 per unit was also paid to unitholders of record of December 31, 2004 in addition to the targeted monthly distributions. In both 2004 and 2003, the Fund distributed a portion of its realized capital gains in order to supplement the distributions.

		2004		2003
Net investment income for the year	$	8,191,818	$	12,527,091
Realized capital gains distributed		11,502,982		1,244,233
Cash distributions	$	19,694,800	$	13,771,324
Cash distributions per unit		$ 5.146		$ 2.496

9. LOAN PAYABLE

The Fund maintains a revolving credit facility with a Canadian chartered bank for up to a maximum amount of $10,000,000 (2003 - $15,000,000) of which no amount was drawn as at December 31, 2004 and 2003. Borrowings, when made, are collateralized by a demand debenture in the amount of $50,000,000 which provides a first floating charge over the Fund's assets, excluding the fixed portfolio. The credit facility bears interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances. The credit facility was cancelled effective March 31, 2005.

10. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 or 2003, no provision for income taxes has been made in these financial statements.

11. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

MYDAS Fund

Stock Symbol	**MYF.un (TSX)**
2004 High/Low	**$29.18 - $24.56**
2004 Distribution	**$2.496 per unit**
2004 Taxable %	**60%**
2004 Total Return	**22.2%**
2004 Management Expense Ratio	**1.7%**

MYDAS Fund (the "Fund" or "MYDAS") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 14, 2002. The Fund has a termination date of June 30, 2007, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

MYDAS' investment objective is to maximize total returns by seeking to provide unitholders with stable, tax effective distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages the Fund's portfolio by rotating its investments in and out of a diversified portfolio of oil & gas royalty trusts, real estate investment trusts, income funds, limited partnerships, Canadian high yielding investment grade debt and income yielding equity securities.

Pursuant to the Fund's distribution policy, MYDAS pays monthly cash distributions targeted at $0.1875 per trust unit. During 2004, MYDAS made monthly distributions at its targeted rate of $0.1875 per unit plus twelve additional top up distributions of $0.0205 per unit for a total of $2.496 per unit (2003 - $2.414 per unit). For tax purposes these distributions were allocated as 33.0% other taxable income, 3.6% dividend income, 49.9% capital gains and 13.5% return of capital. The net effective taxable portion of the 2004 distribution was approximately 60%. Since inception in February 2002 to December 2004, the Fund has generated an annualized compound rate of return of 15.5% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS:

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 30.31	$ 28.51	$ 27.65	$ 29.00	$ 27.56
Market Price per Unit [1]	$ 29.18	$ 27.20	$ 26.55	$ 27.05	$ 26.20
Trading Premium (Discount)	(3.7%)	(4.6%)	(4.0%)	(6.7%)	(4.9%)
Quarterly Distributions per Unit	$ 0.624	$ 0.624	$ 0.624	$ 0.624	$ 0.624
12 Month Trailing Yield	8.6%	9.2%	9.4%	9.2%	9.2%
Market Capitalization ($ millions)	$ 289.4	$ 270.7	$ 263.2	$ 270.4	$ 264.2

[1] Net asset value and market price per unit are based on quarter end values.

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

2004 was another year of continued growth for MYDAS Fund with net asset value per unit increasing from $27.56 per unit at the end of 2003 to $30.31 per unit at the end of 2004. Valuations in all sectors of the Fund's portfolio were strong throughout 2004 resulting in total net assets of $300.6 million at December 31, 2004 compared to $277.9 million in the prior year.

The Fund's market price strengthened throughout 2004, closing the year at $29.18 per unit, up from $26.20 per unit at the end of 2003. This strengthening unit price, coupled with the monthly distributions generated a total return to unitholders of 22.2% for 2004. By comparison, the S&P/TSX income trust index generated a total return of 26.8%.

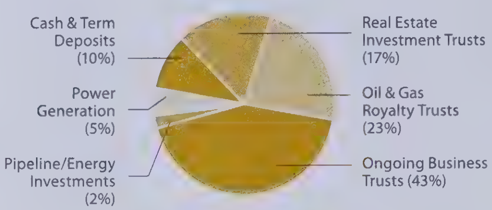
The Fund's total revenue for 2004 was $24.3 million compared to $26.9 million for 2003. This decline in revenue is attributed to higher cash balances and overall lower relative yields experienced as a result of portfolio turnover in 2004. Administrative and investment manager fees which totaled $3.3 million in 2004 increased from $3.0 million in 2003 due to the higher net asset value year over year. Similarly, trailer fees of $1.1 million for 2004 increased from $1.0 million in 2003 as the Fund's net asset value grew. General and administration costs were slightly higher in 2004 at $0.5 million compared to $0.4 million in the prior year.

After total expenses of $4.9 million in 2004 (2003 - $4.4 million), net investment income was $19.4 million or $1.95 per unit in 2004 compared to $22.5 million or $2.24 per unit in 2003.

During the year, the Fund sold certain investments realizing capital gains of $10.3 million ($8.7 million in 2003). Unrealized gains on the Fund's portfolio were $22.3 million compared to $23.2 million in the prior year. Fueled by the significant realized and unrealized gains, total results of operations were $52.0 million or $5.22 per unit in 2004 compared to $54.4 million or $5.42 per unit in the prior year.

Cash reserves were reduced during the fourth quarter of 2004, as the Fund enhanced its positions in ongoing business trusts, oil & gas royalty trusts and REITs. The chart below reflects the Fund's portfolio based on market values as at year end.

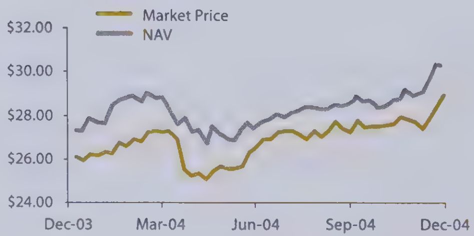
Fund Portfolio



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2004, MYDAS' unit price traded at an average discount to net asset value of 4.9% compared to an average premium of 4.1% in 2003. During the year, the Fund repurchased 325,897 units (2003 - 82,400 units) at an average cost of $26.87 per unit for cancellation under its mandatory repurchase program. Under its mandatory repurchase program, MYDAS is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

MYDAS expects to maintain its monthly targeted distribution rate of $0.1875 per unit for 2005 based upon its current portfolio and analysts' estimates of distributions from the portfolio. Whether or not the monthly top-up distribution of $0.0205 will continue will depend on the performance of MYDAS's portfolio in 2005.

Management's Responsibility Statement

The financial statements of MYDAS Fund have been prepared by MYDAS Management Inc. ("MMI") and approved by the Board of Directors of MMI. MMI is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

MMI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of MMI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of MMI and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
MYDAS Management Inc.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
MYDAS Management Inc.

Auditors' Report to Unitholders

To the Unitholders of MYDAS Fund

We have audited the statements of net assets and investments of MYDAS Fund as at December 31, 2004 and 2003, and the statements of operations and changes in net assets for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $215,176,981; 2003 - $199,686,957)	$ 269,995,160	$ 232,226,792
Cash and term deposits	30,987,578	46,024,593
Revenue receivable	1,891,497	1,946,217
Accounts receivable	102,929	26,237
Prepaid expenses	6,471	6,634
	302,983,635	280,230,473
Liabilities		
Accounts payable and accrued liabilities	287,603	262,134
Distributions payable	2,062,804	2,097,076
	2,350,407	2,359,210
Net Assets representing Unitholders' Equity	$ 300,633,228	$ 277,871,263
Units outstanding (note 3)	9,917,329	10,082,096
Net asset value per unit	$ 30.31	$ 27.56

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

MYF.un

Statement of Operations

Year Ended December 31	2004	2003
Revenue		
Investment income	$ 24,328,466	$ 26,929,180
	24,328,466	26,929,180
Expenses		
Administrative and investment manager fees (note 4)	3,298,574	3,001,449
Trailer fee (note 5)	1,123,771	1,026,568
General and administration costs	515,020	413,094
	4,937,365	4,441,111
Net investment income	19,391,101	22,488,069
Net realized gain on sale of investments (note 6)	10,298,809	8,730,468
Net change in unrealized gain on investments	22,278,344	23,178,605
Total results of operations	$ 51,968,254	$ 54,397,142
Results of operations per unit [1]		
Net investment income	$ 1.95	$ 2.24
Net realized gain on sale of investments	1.03	0.87
Net change in unrealized gain on investments	2.24	2.31
	$ 5.22	$ 5.42

[1] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Years Ended December 31	2004	2003
Net Assets – beginning of year	$ 277,871,263	$ 246,022,639
Operations:		
Net investment income	19,391,101	22,488,069
Net realized gain on sale of investments	10,298,809	8,730,468
Net change in unrealized gain on investments	22,278,344	23,178,605
	51,968,254	54,397,142
Unitholder Transactions:		
Proceeds from issuance of trust units, net	4,369,092	3,769,221
Repurchase of trust units	(8,756,096)	(2,028,530)
	(4,387,004)	1,740,691
Distributions to Unitholders: (note 7)	(24,819,285)	(24,289,209)
Net Assets – end of year	$ 300,633,228	$ 277,871,263
Distributions per unit	$ 2.496	$ 2.414

see accompanying notes

Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Ongoing Business Trusts						
Advanced Fiber Technologies Income Fund	$ 4,250,000	$ 2,520,250		$ 4,250,000	$ 5,248,750	
Arctic Glacier Income Fund	4,370,000	5,520,000		4,370,000	4,830,000	
Atlas Cold Storage Income Trust	10,087,780	8,262,240		5,013,765	2,756,535	
The Brick Group Income Fund	5,190,000	7,245,240		–	–	
CCS Income Trust	2,424,179	8,127,050		2,570,940	5,984,100	
CML Healthcare Income Fund	5,578,040	6,942,000		–	–	
Chemtrade Logistics Income Fund	3,441,335	5,152,140		3,441,335	4,581,090	
Clearwater Seafoods Income Fund	–	–		1,442,660	1,633,200	
Custom Direct Income Trust	3,950,000	4,542,500		3,950,000	4,092,200	
Davis + Henderson Income Fund	5,264,397	11,350,000		7,370,155	12,215,000	
Energy Savings Income Fund	3,833,040	11,550,000		3,833,040	8,445,000	
Fording Canadian Coal Trust	–	–		5,592,928	8,510,000	
Great Lakes Carbon Income Fund	4,904,985	5,194,800		4,904,985	5,291,000	
Heating Oil Partners Income Fund	4,390,000	3,138,850		4,390,000	6,233,800	
KCP Income Fund	4,866,790	5,569,074		4,475,000	5,459,500	
Livingston International Income Fund	2,076,143	4,490,000		2,076,143	3,250,000	
Menu Foods Income Fund	–	–		905,564	1,244,760	
PRT Forest Regeneration Income Fund	5,093,327	5,140,293		2,456,670	2,295,000	
Rogers Sugar Income Fund	6,391,244	6,637,500		5,207,744	4,230,000	
SFK Pulp Fund	7,573,791	5,800,000		6,998,053	5,529,760	
Sun Gro Horticulture Income Fund	6,142,000	5,005,730		9,642,000	7,472,550	
Swiss Water Decaffeinated Coffee Income Fund	2,028,000	3,062,280		3,850,000	5,332,250	
TransForce Income Fund	4,494,500	8,528,800		4,494,500	5,348,000	
UE Waterheater Income Fund	4,218,750	5,058,750		1,745,000	1,996,280	
	100,568,301	128,837,497	42.8%	92,980,482	111,978,775	40.3%
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	9,892,118	13,952,448		9,127,718	10,878,240	
ARC Energy Trust	10,889,190	16,110,000		12,099,100	14,740,000	
Enerplus Resources Fund	3,800,276	6,540,000		3,800,276	5,902,500	
Esprit Energy Trust	4,008,050	4,088,700		–	–	
Harvest Energy Trust	4,138,920	6,368,625		–	–	
Paramount Energy Trust	6,143,536	7,970,000		4,364,826	3,995,027	
Pengrowth Energy Trust	–	–		1,468,100	2,125,000	
PrimeWest Energy Trust	–	–		1,286,000	1,378,000	
Shiningbank Energy Income Fund	2,840,000	4,298,000		2,840,000	3,728,000	
Ultima Energy Trust	–	–		3,571,299	4,492,800	
Vermilion Energy Trust	3,877,500	5,533,000		3,877,500	4,218,500	
Viking Energy Royalty Trust	5,391,950	5,400,000		5,391,950	4,520,000	
	50,981,540	70,260,773	23.3%	47,826,769	55,978,067	20.1%
Real Estate Investment Trusts						
Firm Capital Mortgage Investment Trust	1,239,613	1,354,220		2,643,280	3,036,960	
IPC US Commercial REIT	5,335,275	5,830,000		4,003,500	4,547,500	
Morguard REIT	2,754,620	3,257,890		2,754,620	2,941,590	
Northern Property REIT	3,000,000	4,878,000		3,000,000	4,575,000	
O & Y REIT	10,633,000	13,818,000		10,633,000	11,515,000	
Retirement Residences REIT	6,510,727	6,609,510		–	–	
Royal Host REIT	7,364,165	6,289,113		5,369,700	4,351,200	
Summit REIT	7,488,000	9,370,400		7,488,000	9,443,200	
	44,325,400	51,407,133	17.1%	35,892,100	40,410,450	14.5%
Power Generation Investments						
Algonquin Power Income Fund	3,426,885	3,717,000		3,426,884	3,745,000	
Boralex Power Income Fund	–	–		7,500,000	7,650,000	
Clean Power Income Fund	4,527,433	3,018,900		7,545,722	7,032,500	
Countryside Power Income Fund	4,586,010	4,267,025		–	–	
TransAlta Power L.P.	3,061,512	3,448,832		–	–	
	15,601,840	14,451,757	4.8%	18,472,606	18,427,500	6.6%
Pipeline/Energy Investments						
Inter Pipeline Fund	3,699,900	5,038,000		4,515,000	5,432,000	
	3,699,900	5,038,000	1.7%	4,515,000	5,432,000	2.0%
Investments	215,176,981	269,995,160	89.7%	199,686,957	232,226,792	83.5%
Cash and Term Deposits	30,987,578	30,987,578	10.3%	46,024,593	46,024,593	16.5%
Total	$ 246,164,559	$ 300,982,738	100.0%	$ 245,711,550	$ 278,251,385	100.0%

Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

MYDAS Fund (the "Fund" or "MYDAS") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 18, 2002 and amended February 14, 2002. The Fund commenced operations on February 14, 2002, when it completed an issue of 9,000,000 units at $25.00 per unit through an initial public offering. The term of the Fund continues until June 30, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

(a) **Cash and cash equivalents**

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) **Valuation of investments**

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) **Canadian income taxes**

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) **Investment income**

Dividend income is recorded on the ex-dividend date, interest and other income is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of year	10,082,096	$ 238,397,332	10,012,046	$ 236,656,642
Issued for services (note 4)	117,628	3,145,289	117,183	2,867,554
Issued under DRIP	43,502	1,223,803	35,267	901,666
Repurchase of trust units	(325,897)	(8,756,096)	(82,400)	(2,028,530)
Trust units – end of year	9,917,329	$ 234,010,328	10,082,096	$ 238,397,332

The weighted average number of units outstanding in 2004 was 9,956,485 units (2003 – 10,055,698 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% of the total number of units outstanding at the beginning of each calendar quarter. During 2004, MYDAS repurchased 325,897 units (2003 - 82,400 units) under this program at an average price of $26.87 per unit.

Unitholders of MYDAS can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of MYDAS at net asset value. In 2004, 43,502 units (2003 – 35,267 units) were issued under the DRIP.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

MYDAS Management Inc. ("MMI") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund payable in units monthly in

arrears. During 2004, the Fund issued 115,278 units and recorded an expense of $3,298,574 (2003 - $3,001,449) in respect of the administrative and investment management fees earned during the year. Pursuant to the administrative services agreement, the Fund commenced paying the administrative and investment management fees in cash rather than in units of the Fund beginning in March 2005. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from MMI of $102,929 (2003 - $26,237).

Directors of MMI received a total of 2,350 units in 2004 (2003 - 2,675 units) as payment for their annual retainers.

5. TRAILER FEE

MYDAS pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $1,123,771 (2003 - $1,026,568) relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 54,428,760	$ 46,392,879
Less cost of securities sold:		
Investments at cost – beginning of year	199,686,957	195,624,472
Investments purchased during year	59,619,975	41,724,896
Investments at cost – end of year	(215,176,981)	(199,686,957)
Cost of investments disposed of during year	44,129,951	37,662,411
Net realized gain on sale of investments	$ 10,298,809	$ 8,730,468

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at $0.1875 per unit based upon cash distributions received by the Fund less estimated expenses. Commencing in May 2003, the Fund has paid top up distributions of $0.0205 per unit in addition to the targeted distribution. In 2004, the Fund distributed a portion of its realized capital gains in order to supplement distributions.

	2004	2003
Net investment income for the year	$ 19,391,101	$ 22,488,069
Add fees paid by issuance of trust units	3,145,289	2,867,557
Realized capital gains distributed (cashflow retained)	2,282,895	(1,066,417)
Cash distributions	$ 24,819,285	$ 24,289,209
Cash distributions per unit	$ 2.496	$ 2.414

8. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

9. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, accounts receivable, prepaid expenses, revenue receivable, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

Citadel Multi-Sector Income Fund

Stock Symbol	**CMS.un (TSX)**
2004 High/Low	**$11.71 - $9.43**
2004 Distribution	**$0.9996 per unit**
2004 Taxable %	**64%**
2004 Total Return	**22.1%**
2004 Management Expense Ratio	**1.7%**

Citadel Multi-Sector Income Fund (the "Fund" or "Citadel Multi-Sector") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 14, 2003. The Fund has a termination date of December 31, 2008, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Citadel Multi-Sector's investment objective is to maximize total returns by seeking to provide unitholders with stable, tax effective distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages the Fund's portfolio by rotating its investments in and out of a diversified portfolio of income producing investments consisting of Canadian income funds and Canadian high yielding investment grade debt.

Pursuant to the Fund's distribution policy, Citadel Multi-Sector pays monthly cash distributions targeted at $0.0833 per trust unit. During 2004, the Fund made monthly distributions at its targeted rate for a total of $0.9996 per unit (2003 - $0.7497 per unit). For tax purposes these distributions were allocated as 39.1% other taxable income, 4.9% dividend income, 44.1% capital gains and 11.9% return of capital. The net effective current taxable portion of the 2004 distribution was approximately 64%. Since inception in February 2003 to December 2004, the Fund has generated an annualized compound rate of return of 16.4% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS:

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 11.81	$ 11.09	$ 10.63	$ 11.06	$10.51
Market Price per Unit [1]	$ 11.20	$ 10.70	$ 10.15	$ 10.60	$10.09
Trading Premium (Discount)	(5.2%)	(3.5%)	(4.5%)	(4.2%)	(4.0%)
Quarterly Distributions per Unit	$ 0.2499	$ 0.2499	$ 0.2499	$ 0.2499	$ 0.2499
12 Month Trailing Yield	8.9%	9.3%	9.8%	9.4%	n/a
Market Capitalization ($ millions)	$ 314.8	$ 299.6	$ 283.1	$ 297.0	$ 281.9

[1] Net asset value and market price per unit are based on quarter end values.

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

Citadel Multi-Sector's net asset value experienced strong growth in 2004 with valuation increases seen in all sectors of the Fund's portfolio. At year end, Citadel Multi-Sector's net asset value was $11.81 per unit, up over 12% from the $10.51 per unit at the end of 2003. Total net assets closed the year at $332.0 million compared to $293.7 million at December 31, 2003.

During 2004, the Fund's unit price also increased from $10.09 per unit at December 31, 2003 to $11.20 per unit at year end 2004. Inclusive of distributions, the Fund generated a total return of 22.1% for 2004. By comparison, the S&P/TSX income trust index generated a 26.8%.

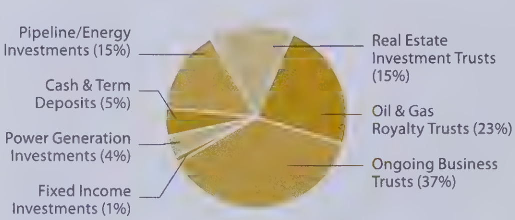
The Fund's total revenue for 2004 was $27.9 million, up 18% from revenue of $23.7 million posted in the prior year. The increase in revenue is attributable to the fact that the Fund was not fully invested throughout 2003 as the initial public offering was completed in February of 2003. Administrative and investment manager fees, which are paid by issuing units of the Fund, increased to $3.6 million in 2004 from $2.7 million in the prior year due to the full year of operations in 2004 as well as a higher net asset value. Similarly, trailer fees, which are calculated in reference to the net asset value of the Fund, also increased to $1.2 million from $0.8 million in the prior year. General

and administration costs totaled $0.59 million, up from $0.35 million due to the full year of operations. Total expenses for 2004 were $5.3 million compared to $3.9 million for 2003. Net investment income was $22.5 million or $0.81 per unit in 2004 compared to $19.8 million or $0.71 per unit for 2003.

During the year, the Fund realized gains of $11.3 million on the sale of investments in its portfolio (2003 - $3.2 million). In addition, unrealized gains totaled $30.5 million for 2004 compared to $27.6 million in the prior year. With these significant realized and unrealized gains, the Fund posted total results of operations of $64.3 million or $2.30 per unit in 2004 compared to $50.6 million or $1.83 per unit in 2003.

Throughout 2004, the Fund deployed the majority of its cash reserves by enhancing its position in ongoing business and power generation trusts. At December 31, 2004 the Fund held cash reserves of $17.5 million compared to $48.6 million at the end of 2003. The chart below depicts the Fund's portfolio based on market value at year end.

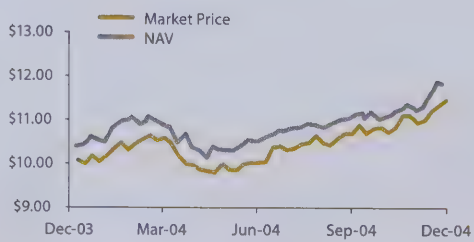
Portfolio Holdings



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2004, Citadel Multi-Sector's unit price traded at an average discount to net asset value of 3.7% compared to an average premium to net asset value of 1.4% for 2003. As a result, the Fund repurchased 264,700 units (2003 – no units) at an average cost of $10.03 per unit in 2004. Under its mandatory repurchase program, Citadel Multi-Sector is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

Citadel Multi-Sector expects to maintain its current monthly distribution of $0.0833 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

Management's Responsibility Statement

The financial statements of Citadel Multi-Sector Income Fund have been prepared by Citadel Multi-Sector Management Inc. ("CMSI") and approved by the Board of Directors of CMSI. CMSI is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CMSI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CMSI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of CMSI and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel Multi-Sector Management Inc.
April 6, 2004

Darren K. Duncan
Chief Financial Officer
Citadel Multi-Sector Management Inc.

Auditors' Report to Unitholders

To the Unitholders of Citadel Multi-Sector Income Fund

We have audited the statements of net assets and investments of Citadel Multi-Sector Income Fund as at December 31, 2004 and 2003, and the statements of operations and changes in net assets for the year ended December 31, 2004 and for the period from December 12, 2002, the date of inception of the Fund, to December 31, 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the year ended December 31, 2004 and for the period from December 12, 2002, the date of inception of the Fund, to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

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Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $256,510,272; 2003 - $217,449,980)	$ 314,616,422	$ 245,050,950
Cash and term deposits	17,486,434	48,585,286
Revenue receivable	2,424,247	2,670,991
Accounts receivable	95,658	27,854
Prepaid expenses	8,033	8,112
	334,630,794	296,343,193
Liabilities		
Accounts payable and accrued liabilities	309,149	279,354
Distributions payable	2,341,101	2,327,029
	2,650,250	2,606,383
Net Assets representing Unitholders' Equity	$ 331,980,544	$ 293,736,810
Units outstanding (note 3)	28,104,458	27,935,523
Net asset value per unit	$ 11.81	$ 10.51

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

	Year Ended December 31, 2004	For the Period December 12, 2002 to December 31, 2003
Revenue		
Investment income	$ 27,878,180	$ 23,659,066
	27,878,180	23,659,066
Expenses		
Administrative and investment manager fees (note 4)	3,557,139	2,745,727
Trailer fee (note 5)	1,204,173	807,481
General and administration costs	586,973	349,689
	5,348,285	3,902,897
Net investment income	22,529,895	19,756,169
Net realized gain on sale of investments (note 6)	11,283,881	3,206,800
Net change in unrealized gain on investments	30,505,179	27,600,970
Total results of operations	$ 64,318,955	$ 50,563,939
Results of operations per unit [(1)]		
Net investment income	$ 0.81	$ 0.71
Net realized gain on sale of investments	0.40	0.12
Net change in unrealized gain on investments	1.09	1.00
	$ 2.30	$ 1.83

[(1)] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

	Year Ended December 31, 2004	For the Period December 12, 2002 to December 31, 2003
Net Assets – beginning of period	$ 293,736,810	$ –
Operations:		
Net investment income	22,529,895	19,756,169
Net realized gain on sale of investments	11,283,881	3,206,800
Net change in unrealized gain on investments	30,505,179	27,600,970
	64,318,955	50,563,939
Unitholder Transactions:		
Proceeds from issuance of trust units, net	4,549,237	264,022,057
Repurchase of trust units	(2,654,133)	–
	1,895,104	264,022,057
Distributions to Unitholders: (note 7)	(27,970,325)	(20,849,186)
Net Assets – end of period	$ 331,980,544	$ 293,736,810
Distributions per unit	$ 0.9996	$ 0.7497

see accompanying notes

Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Fixed Income Investments						
Pembina Pipeline Income Fund 7.35%	$ 2,800,000	$ 3,024,000		$ 7,000,000	$ 7,482,300	
Retirement Residences REIT 8.25%	–	–		10,000,000	10,800,000	
	2,800,000	3,024,000	0.9%	17,000,000	18,282,300	6.2%
Ongoing Business Trusts						
ACS Media Income Fund	4,200,493	3,891,600		4,200,493	4,471,200	
Advanced Fiber Technologies Income Fund	4,710,029	3,836,710		3,163,853	3,603,730	
Arctic Glacier Income Fund	4,216,147	5,481,456		4,216,147	4,796,274	
Atlas Cold Storage Income Trust	3,024,738	1,534,792		3,024,738	1,740,344	
The Brick Group Income Fund	4,500,000	6,282,000		–	–	
Bell Nordiq Income Fund	–	–		1,379,494	1,729,612	
CML Healthcare Income Fund	5,395,740	6,675,000		–	–	
Chemtrade Logistics Income Fund	7,403,268	10,038,350		7,403,268	8,925,725	
Cineplex Galaxy Income Fund	5,113,097	7,361,760		2,870,336	2,922,940	
Clearwater Seafoods Income Fund	3,289,913	2,723,714		3,302,639	3,737,016	
Custom Direct Income Fund	5,203,588	5,980,000		4,999,450	5,180,000	
Fording Canadian Coal Trust	–	–		6,499,974	9,890,000	
Golf Town Income Fund	2,662,000	3,087,920		–	–	
Grandby Industries Income Fund	5,950,000	6,426,000		–	–	
Menu Foods Income Fund	–	–		1,357,150	1,370,340	
Priszm Canadian Income Fund	6,963,640	9,800,618		4,400,000	4,598,000	
ROW Entertainment Income Fund	6,007,600	7,128,000		4,001,600	4,264,000	
Richards Packaging Income Fund	2,760,000	3,008,400		–	–	
Rogers Sugar Income Fund	6,427,496	6,682,500		6,427,496	5,346,000	
SFK Pulp Fund	8,986,191	6,815,000		8,244,051	6,460,000	
Specialty Foods Group Income Fund	6,554,800	3,150,000		6,554,800	5,530,000	
Sun Gro Horticulture Income Fund	5,629,246	5,297,500		4,680,247	4,030,000	
TransForce Income Fund	6,828,473	13,707,000		9,028,759	11,364,500	
UE Waterheater Income Fund	–	–		1,810,000	2,070,640	
Yellow Pages Income Fund	4,483,500	4,721,500		–	–	
	110,309,959	123,629,820	37.2%	87,564,495	92,030,321	31.4%

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	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Real Estate Investment Trusts						
Borealis Retail REIT	6,252,815	8,287,572		6,252,815	7,228,398	
Calloway REIT	4,504,500	8,043,750		4,504,500	5,354,652	
Dundee REIT	6,388,200	8,064,000		6,388,200	7,371,000	
InnVest REIT	4,559,717	5,771,500		4,559,717	5,529,000	
IPC US Income Commercial REIT	6,939,961	7,273,720		4,814,541	5,202,340	
Retirement Residences REIT	4,638,845	4,892,500		–	–	
RioCan REIT	–	–		3,808,875	4,518,182	
TGS North American REIT	5,882,500	5,785,000		–	–	
	39,166,538	48,118,042	14.5%	30,328,648	35,203,572	12.0%
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	9,336,727	12,250,123		4,318,989	5,280,000	
ARC Energy Trust	7,481,547	11,203,001		7,481,547	9,225,265	
Baytex Energy Trust	5,152,554	6,512,700		3,902,474	4,405,100	
Bonavista Energy Trust	5,373,240	7,317,000		–	–	
Enerplus Resources Fund	3,840,964	5,909,239		3,840,965	5,333,223	
Harvest Energy Trust	4,670,500	5,737,500		–	–	
Paramount Energy Trust	10,617,769	12,991,100		10,567,626	9,466,909	
Pengrowth Energy Trust	–	–		3,327,676	4,675,000	
Shiningbank Energy Income Fund	4,326,788	6,188,776		4,326,788	5,368,022	
Ultima Energy Trust	–	–		3,497,064	4,185,792	
Vermilion Energy Trust	4,230,000	6,036,000		4,230,000	4,602,000	
Viking Energy Royalty Trust	1,317,584	1,270,836		1,317,584	1,063,737	
	56,347,673	75,416,275	22.7%	46,810,713	53,605,048	18.3%
Power Generation Investments						
Algonquin Power Income Fund	–	–		5,508,178	6,317,526	
Boralex Power Income Fund	–	–		2,244,449	2,274,549	
Clean Power Income Fund	–	–		3,911,247	4,917,990	
Countryside Power Income Fund	7,719,022	7,290,850		–	–	
TransAlta Power L.P.	5,736,900	6,656,000		–	–	
	13,455,922	13,946,850	4.2%	11,663,874	13,510,065	4.6%
Pipeline Energy Investments						
Alta Gas Income Trust	4,796,495	5,456,456		–	–	
CCS Income Trust	6,000,000	10,982,500		6,196,800	7,875,100	
Heating Oil Partners Income Fund	5,485,050	3,281,850		5,485,050	6,517,800	
Inter Pipeline Income Fund	5,976,154	8,244,000		4,466,744	5,592,244	
Keyspan Facilities Income Fund	4,526,825	6,059,629		–	–	
Superior Plus Income Fund	3,937,656	5,703,800		3,937,656	4,875,400	
Trinidad Energy Services Income Fund	3,708,000	10,753,200		3,996,000	7,559,100	
	34,430,180	50,481,435	15.2%	24,082,250	32,419,644	11.0%
Investments	256,510,272	314,616,422	94.7%	217,449,980	245,050,950	83.5%
Cash and Term Deposits	17,486,434	17,486,434	5.3%	48,585,286	48,585,286	16.5%
Total	$ 273,996,706	$ 332,102,856	100.0%	$ 266,035,266	$ 293,636,236	100.0%

Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Citadel Multi-Sector Income Fund (the "Fund" or "Citadel Multi-Sector") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 12, 2002 and amended February 14, 2003. The Fund commenced operations on February 14, 2003, when it completed an issue of 27,055,273 units at $10.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part I of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of period	27,935,523	$ 264,022,057	–	$ –
Issued for cash:				
Initial public offering			27,055,273	270,552,730
Over-allotment provision			569,958	5,699,580
Agents' fees and issue costs		–		(15,322,105)
Issued for services (note 4)	326,316	3,386,913	262,860	2,628,600
Issued under DRIP	107,319	1,162,324	47,432	463,252
Repurchase of trust units	(264,700)	(2,654,133)	–	–
Trust units – end of period	[illegible]	$ [illegible]	27,935,523	$ 264,022,057

The weighted average number of units outstanding in 2004 was 27,968,001 units (2003 – 27,720,472 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2004, Citadel Multi-Sector repurchased 264,700 trust units under this program at an average cost of $10.03 per unit (2003 – nil).

Unitholders of Citadel Multi-Sector can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Multi-Sector at net asset value. In 2004, 107,319 units were issued under the DRIP (2003 – 47,432 units).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel Multi-Sector Management Inc. ("CMSI") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund payable in units monthly in arrears. During 2004, the Fund issued 320,220 trust units and recorded an expense of $3,557,139 in respect of the administrative and investment management fees during the year (2003 - $2,745,727). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from CMSI of $95,658 (2003 -$27,857).

Directors of CMSI received a total of 6,096 units in 2004 (2003 – 6,250) as payment for their annual retainers.

5. TRAILER FEE

Citadel Multi-Sector pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $1,204,173 (2003 - $807,481) relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 68,235,216	$ 72,260,370
Less cost of securities sold:		
Investments at cost – beginning of year	217,449,980	–
Investments purchased during year	96,011,627	286,503,550
Investments at cost – end of year	(256,510,272)	(217,449,980)
Cost of investments disposed of during year	56,951,335	69,053,570
Net realized gain on sale of investments	$ 11,283,881	$3,206,800

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at $0.0833 per unit based upon cash distributions received by the Fund less estimated expenses. In 2004, the Fund distributed a portion of its realized capital gains in order to supplement distributions.

	2004	2003
Net investment income for the year	$ 22,529,895	$ 19,756,169
Add fees paid by issuance of units	3,386,913	2,620,787
Realized capital gains distributed (cashflow retained)	2,053,517	(1,527,770)
Cash distributions	$ 27,970,325	$ 20,849,186
Cash distributions per unit	$ 0.9996	$ 0.7497

8. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

9. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, accounts receivable, revenue receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

Series S-1 Income Fund

Stock Symbol	**SRC.un (TSX)**
2004 High/Low	**$11.50 - $8.45**
2004 Distribution	**$0.90 per unit**
2004 Taxable %	**42%**
2004 Total Return	**16.6%**
2004 Management Expense Ratio	**1.7%**

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on June 12, 2003. The Fund has a termination date of December 31, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Series S-1's investment objective is to provide investors with highly stable and sustainable monthly cash distributions derived from an actively managed and diversified portfolio of income producing investments consisting, in varying amounts, of publicly traded units of Canadian income funds and Canadian high yielding investment grade debt, while at all times maintaining an SR-1 stability rating as provided by Standard & Poor's.

Pursuant to the Fund's distribution policy, Series S-1 pays monthly cash distributions targeted at $0.075 per trust unit. The Fund made monthly distributions at its targeted rate throughout 2004 for a total of $0.90 per unit (2003 - $0.375 per unit). For tax purposes these distributions were allocated as 25.9% other taxable income, 4.5% dividend income, 25.5% capital gains and 44.1% return of capital. The net effective current taxable portion of the 2004 distribution was approximately 42%. Since inception in June 2003 to December 2004, the Fund has generated an annualized compound rate of return of 17.8% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS:

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit [1]	$ 11.14	$ 10.55	$ 10.29	$ 11.01	$ 10.57
Market Price per Unit [1]	$ 11.40	$ 10.78	$ 10.01	$ 10.66	$ 10.65
Trading Premium (Discount)	2.3%	2.2%	(2.7%)	(3.2%)	0.1%
Quarterly Distributions per Unit	$ 0.225	$ 0.225	$ 0.225	$ 0.225	$ 0.225
12 Month Trailing Yield [2]	7.9%	8.3%	8.2%	n/a	n/a
Market Capitalization ($ millions)	$ 398.9	$ 375.8	$ 347.7	$ 370.3	$ 368.6

[1] Net asset value and market price per unit are based on quarter end values.

[2] First monthly distribution had a record date of August 31, 2003 and was paid September 15, 2003

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

For its first full year of operations, Series S-1 posted increases in total net assets and net asset value per unit as the Fund experienced valuation increases in all sectors of its portfolio. Total net assets closed the year at $389.9 million up from $365.7 million at the end of the prior year. Net asset value per unit was $11.14 per unit on December 31, 2004, up over 5% from $10.57 per unit at the end of 2003. Series S-1's market price also increased year over year, closing 2004 at $11.40 per unit, up from $10.65 per unit at the end of 2003. Inclusive of distributions, the Fund generated a 16.6% total return for 2004. This compares to 26.8% for the S&P/TSX Trust Index. Series S-1's more modest return than the trust index is due to its requirement to maintain an SR-1 rated portfolio, thus a more sustainable distribution stream.

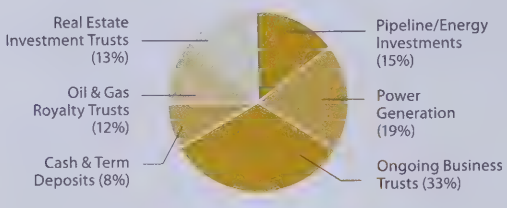
Total revenue for the year ended December 31, 2004 was $32.5 million up from $18.5 million generated in the 2003's partial year of operations from June 12, 2003 to December 31, 2003. Total expenses were $6.4 million for 2004 (2003 - $3.1 million) and included $4.3 million for administrative and investment manager fees, $1.5 million for trailer fees and $0.66 million for general and administration costs. Both administrative and investment manager fees and trailer fees are calculated in reference to the Fund's net asset value. Administrative and investment manager fees

are payable in trust units of the Fund. After expenses, the Fund generated net investment income of $26.0 million or $0.75 per unit compared to $15.4 million or $0.45 per unit in the prior short year.

During the year, the Fund sold a number of investments, realizing capital gains of $7.8 million (2003 - $0.6 million). In addition, unrealized gains on investments in the Fund's portfolio totaled $17.6 million for the year (2003 - $35.5 million).With these gains, the Fund posted total results of operations of $51.5 million or $1.48 per unit compared to $51.5 million or $1.51 per unit in the prior year.

During the year, the Fund reduced its cash balances to $32.3 million or 8.3% of the total portfolio at December 31, 2004 from $37.1 million or 10.1% of the total portfolio at the end of the previous year. The chart below reflects the Fund's portfolio based on market values as at year end.

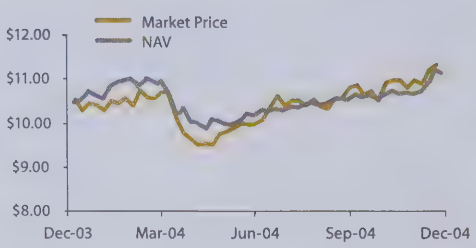
Portfolio Holdings



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

Series S-1's unit price traded at an average discount to net asset value of 1.0% in 2004 compared to an average premium to net asset value of 2.4% in 2003. During the second quarter of 2004, Series S-1's market price traded below 95% of its net asset value and consequently the Fund was required to repurchase 147,000 units for cancellation under its mandatory repurchase program at an average cost of $9.62 per unit. Under its mandatory repurchase program, Series S-1 is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



STABILITY RATING

Standard & Poor provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard and Poor's Stability Ratings characterize the stability of the cash distribution stream of and income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2004, the Fund maintained its SR-1 stability rating and expects to maintain its rating again in 2005.

RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although we do not expect to experience the capital appreciation levels of the past two years, we do expect to generate distribution driven returns in 2005.

With its SR-1 stability rated portfolio, Series S-1 expects to maintain its current monthly distribution of $0.075 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

Management's Responsibility Statement

The financial statements of Series S-1 Income Fund have been prepared by Citadel Series Management Ltd. ("SML") and approved by the Board of Directors of SML. SML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

SML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of SML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of SML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel Series Management Ltd.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
Citadel Series Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Series S-1 Income Fund

We have audited the statements of net assets and investments of Series S-1 Income Fund as at December 31, 2004 and 2003, and the statements of operations and changes in net assets for the year ended December 31, 2004 and the period from April 17, 2003, the date of inception of the Fund, to December 31, 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the year ended December 31, 2004 and the period from April 17, 2003, the date of the inception of the Fund, to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $305,015,653; 2003 - $293,452,436)	$ 358,142,987	$ 328,955,356
Cash and term deposits	32,257,232	37,050,895
Revenue receivable	2,400,601	2,652,549
Accounts receivable	98,653	–
Prepaid expenses	29,998	30,065
	392,929,471	368,688,865
Liabilities		
Accounts payable and accrued liabilities	384,898	370,228
Distributions payable	2,624,313	2,595,731
	3,009,211	2,965,959
Net Assets representing Unitholders' Equity	$ 389,920,260	$ 365,722,906
Units outstanding (note 3)	34,990,842	34,609,751
Net asset value per unit	$ 11.14	$ 10.57

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

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Statement of Operations

	Year Ended December 31, 2004	For the Period April 17, 2003 to December 31, 2003
Revenue		
Investment income	$ 32,472,597	$ 18,501,436
	32,472,597	18,501,436
Expenses		
Administrative and investment manager fees (note 4)	4,296,551	2,138,994
Trailer fee (note 5)	1,462,964	691,018
General and administration costs	663,630	247,262
	6,423,145	3,077,274
Net investment income	26,049,452	15,424,162
Net realized gain on sale of investments (note 6)	7,802,185	599,878
Net change in unrealized gain on investments	17,624,413	35,502,920
Total results of operations	$ 51,476,050	$ 51,526,960
Results of operations per unit [(1)]		
Net investment income	$ 0.75	$ 0.45
Net realized gain on sale of investments	0.22	0.02
Net change in unrealized gain on investments	0.51	1.04
	$ 1.48	$ 1.51

(1) Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

	Year Ended December 31, 2004	For the Period April 17, 2003 to December 31, 2003
Net Assets – beginning of period	$ 365,722,906	$ –
Operations:		
Net investment income	26,049,452	15,424,162
Net realized gain on sale of investments	7,802,185	599,878
Net change in unrealized gain on investments	17,624,413	35,502,920
	$ 51,476,050	$ 51,526,960
Unitholder Transactions:		
Proceeds from issuance of trust units, net	5,453,086	327,144,775
Repurchase of trust units	(1,414,703)	–
	4,038,383	327,144,775
Distributions to Unitholders: (note 7)	(31,317,079)	(12,948,829)
Net Assets – end of period	$ 389,920,260	$ 365,722,906
Distributions per unit	$ 0.90	$ 0.375

see accompanying notes

Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Ongoing Business Trusts						
ACS Media Income Fund	$ 4,755,000	$ 4,700,000		$ 4,755,000	$ 5,400,000	
Amtelecom Income Fund	5,249,225	6,393,500		5,249,225	5,747,500	
Arctic Glacier income Fund	5,718,069	7,080,000		5,718,069	6,195,000	
Bell Nordiq Income Fund	2,137,105	2,730,990		2,137,105	2,354,069	
CML Healthcare Income Fund	5,363,500	6,675,000		–	–	
Chemtrade Logistics Income Fund	7,653,298	10,288,040		7,852,634	9,386,000	
Clearwater Seafoods Income Fund	7,461,912	5,268,000		7,461,912	7,200,000	
Consumers' Waterheater Income Fund	4,763,075	6,100,000		4,763,075	5,364,000	
Custom Direct Income Fund	7,000,000	8,050,000		7,000,000	7,252,000	
Fording Canadian Coal Trust	–	–		2,468,697	4,558,370	
KCP Income Fund	5,037,748	4,536,000		5,037,748	4,880,000	
Noranda Income Fund	12,560,209	15,938,500		12,560,209	14,782,800	
Rogers Sugar Income Fund	5,799,821	6,300,000		6,421,230	5,580,000	
Royal LePage Franchise Facilities Fund	7,550,000	8,720,250		9,250,000	10,036,250	
SFK Pulp Fund	6,320,945	5,800,000		6,320,945	6,080,000	
Specialty Foods Group Income Fund	5,030,513	2,250,000		5,030,513	3,950,000	
SunGro Horticultural Income Fund	4,846,342	4,890,000		4,846,342	4,650,000	
TransForce Income Fund	4,494,057	8,681,100		4,919,021	5,958,245	
UE Waterheater Income Fund	4,582,000	6,025,330		4,582,000	5,241,808	
Yellow Pages Income Fund	6,520,000	8,795,480		6,520,000	7,563,200	
	112,842,819	129,222,190	33.1%	112,893,725	122,179,242	33.4%
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	7,142,586	9,209,117		5,512,410	6,044,088	
ARC Energy Trust	12,197,033	17,363,000		14,711,885	17,245,800	
Enerplus Resources Fund	5,394,212	7,630,000		5,394,211	6,886,250	
Paramount Energy Trust	5,000,515	6,454,106		8,056,591	10,200,000	
Petrofund Energy Trust	4,638,849	6,149,622		–	–	
Ultima Energy Trust	–	–		4,638,849	5,561,712	
	34,373,195	46,805,845	12.0%	38,313,946	45,937,850	12.6%
Real Estate Investment Trusts						
Borealis Retail REIT	7,000,000	9,366,000		8,000,000	9,336,000	
Dundee REIT	8,126,642	10,240,000		8,126,642	9,360,000	
Firm Capital Mortgage Investment Trust	4,895,558	5,239,628		–	–	
InnVest REIT	5,264,206	6,971,020		6,604,971	8,379,000	
O & Y REIT	4,877,617	6,345,000		4,877,617	5,287,500	
Retirement Residences REIT	4,799,089	4,789,500		4,799,089	5,975,250	
RioCan REIT	5,562,176	7,100,000		5,562,176	6,120,000	
	40,525,288	50,051,148	12.8%	37,970,495	44,457,750	12.1%
Power Generation Investments						
Algonquin Power Income Fund	11,807,752	13,112,758		8,998,383	9,951,000	
Boralex Power Income Fund	8,349,789	9,242,780		5,628,324	5,712,000	
Calpine Power Income Fund	6,115,250	6,593,360		10,303,778	11,365,200	
Clean Power Income Fund	14,039,535	9,716,000		14,039,535	13,580,000	
Innergex Power Income Fund	7,250,220	9,240,000		7,250,220	8,260,000	
Northland Power Income Fund	4,871,328	6,009,500		4,871,328	5,032,000	
TransAlta Power L.P.	17,426,317	19,477,504		15,810,000	18,071,000	
	69,860,191	73,391,902	18.8%	66,901,568	71,971,200	19.7%
Pipeline/Energy Investments						
AltaGas Income Trust	5,754,980	6,546,820		–	–	
Heating Oil Partners Income Fund	6,704,085	3,825,250		6,704,085	7,597,000	
Inter Pipeline Fund	10,522,192	15,158,517		10,522,192	12,841,714	
Keyspan Facilities Income Fund	6,983,448	9,196,649		6,163,223	7,035,000	
Superior Plus Income Fund	11,864,535	16,811,200		13,983,202	16,935,600	
Taylor NGL L.P.	5,584,920	7,133,466		–	–	
	47,414,160	58,671,902	15.0%	37,372,702	44,409,314	12.1%
Investments	305,015,653	358,142,987	91.7%	293,452,436	328,955,356	89.9%
Cash and Term Deposits	32,257,232	32,257,232	8.3%	37,050,895	37,050,895	10.1%
Total	$ 337,272,885	$ 390,400,219	100.0%	$ 330,503,331	$ 366,006,251	100.0%

Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of April 17, 2003 and amended June 12, 2003. The Fund commenced operations on June 12, 2003, when it completed an issue of 32,500,000 trust units at $10.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004		2003	
	Number	Amount	Number	Amount
Trust units – beginning of period	34,609,751	$ 327,144,774	–	$ –
Issued for cash:				
Initial public offering	–	–	32,500,000	325,000,000
Over-allotment provision	–	–	1,876,000	18,760,000
Issued for services (note 4)	396,877	4,077,967	206,156	2,061,560
Agents' fees and issue costs	–	–	–	(18,951,625)
Issued under DRIP	131,214	1,375,121	27,595	274,839
Repurchase of trust units	(147,000)	(1,414,703)	–	–
Trust units – end of period	34,990,842	$ 331,183,159	34,609,751	$ 327,144,774

The weighted average number of units outstanding in 2004 was 34,766,541 units (2003 – 34,285,499 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2004, Series S-1 repurchased 147,000 trust units (2003 – no units) under this program at an average cost of $9.62 per unit.

Unitholders of Series S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Series S-1 at net asset value. In 2004, 131,214 units (2003 - 27,595 units) were issued under the DRIP.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel Series Management Ltd. ("SML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2004, the Fund issued 390,564 trust units and recorded an expense of $4,296,551 in respect of the administrative and investment management fees during the period (2003 - 199,906 units and an expense of $2,138,994). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from SML of $98,653 (2003 - $24,132 included in accounts payable).

Directors of SML received a total of 6,313 units in (2003 – 6,250 units) as payment for their annual retainers.

5. TRAILER FEE

Series S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $1,462,964 (2003 - $691,018) relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 39,367,480	$ 22,331,752
Less cost of securities sold:		
Investments at cost – beginning of period	293,452,436	–
Investments purchased during period	43,128,512	315,184,310
Investments at cost – end of period	(305,015,653)	(293,452,436)
Cost of investments disposed of during period	31,565,295	21,731,874
Net realized gain on sale of investments	$ 7,802,185	$ 599,878

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at $0.075 per unit based upon investment income received by the Fund less estimated expenses. In 2004, the Fund distributed a portion of its realized capital gains in order to supplement its distributions.

	2004	2003
Net investment income for the period	$ 26,049,452	$ 15,424,162
Add fees paid by issuance of units	4,077,967	2,032,914
Realized capital gains distributed (cashflow retained)	1,189,660	(4,508,247)
Cash distributions	$ 31,317,079	$ 12,948,829
Cash distributions per unit	$ 0.90	$ 0.375

8. INCOME TAXES

As all taxable income was allocated to the unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

9. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments..

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Citadel Income & Growth Fund

Stock Symbol	**CIF.un (TSX)**
2004 High/Low	**$10.99 – $9.09**
2004 Distribution	**$0.8496 per unit**
2004 Taxable %	**58%**
2004 Total Return	**14.0%**
2004 Management Expense Ratio	**1.8%**

Citadel Income & Growth Fund (the "Fund" or "Citadel Income & Growth") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on October 16, 2003. The Fund has a termination date of June 30, 2010, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Citadel Income & Growth's investment objective is to provide investors with monthly cash distributions while maximizing total return by investing in income funds with growth potential as well as in other income generating equity securities and common shares.

Pursuant to the Fund's distribution policy, the Fund does not have a fixed distribution target, but will annually determine an indicative distribution rate for the next year. For 2004, the Fund paid monthly distributions of $0.0708 per trust unit for a total of $0.8496 per unit (2003 - $0.1416 per unit). For tax purposes these distributions were allocated as 39.3% other taxable income, 8.6% dividend income, 26.1% capital gains and 26.0% return of capital. The net effective taxable portion of the 2004 distribution was approximately 58%. Since inception in October 2003 to December 2004, the Fund has generated an annualized compound rate of return of 16.5% per year through unit price appreciation and distributions.

INVESTMENT HIGHLIGHTS:

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit (1)	$ 11.50	$ 10.60	$ 10.31	$ 10.74	$ 10.22
Market Price per Unit (1)	$ 10.90	$ 10.08	$ 9.69	$ 10.40	$ 10.40
Trading Premium (Discount)	(5.2%)	(4.9%)	(6.0%)	(3.2%)	1.8%
Quarterly Distributions per Unit (2)	$ 0.2124	$ 0.2124	$ 0.2124	$ 0.2124	$ 0.1416
12 Month Trailing Yield	7.8%	7.7%	n/a	n/a	n/a
Market Capitalization ($ millions)	$ 156.4	$ 145.7	$ 140.8	$ 152.5	$ 152.0

(1) Net asset value and market price per unit are based on quarter end values.

(2) First monthly distribution had a record date of November 30, 2003 and was paid December 15, 2003.

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

Citadel Income & Growth experienced strong gains in all sectors of its portfolio during its first full year of operations. At December 31, 2004, the Fund's net assets were $165.1 million or $11.50 per unit, up from $149.3 million or $10.22 per unit at the end of 2003. The Fund's unit price also improved during 2004, closing the year at $10.90 per unit up from $10.40 per unit at the end of 2003. Inclusive of distributions, the Fund generated a total return of 14.0% in 2004 compared to 26.8% for the S&P/TSX trust Index and 14.5% for the S&P/TSX equity index. Citadel Income & Growth's underperformance relative to the trust index is partly due to the fact that the Fund was not fully invested throughout 2004 and a portion of the portfolio is invested in low yielding equity investments.

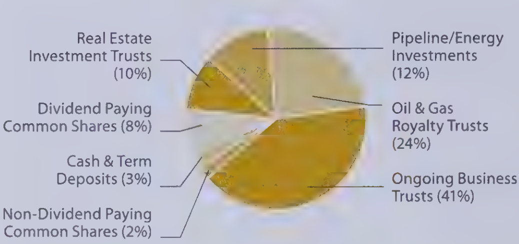
Total revenue for the Fund's first full year of operations was $13.4 million compared to $2.4 million in the prior short year. Administrative and investment manager fees, which are paid in units and calculated in reference to the Fund's net asset value, totaled $1.8 million (2003 - $0.3 million) for the year. Trailer fees, which are also calculated in reference to the Fund's net asset value, totaled $0.6 million for 2004. General and administration costs totaled $0.38 million for the year. After total expenses of $2.8 million, the Fund generated net investment income of $10.7 million or $0.73 per unit for 2004 compared to $1.9 million or $0.13 per unit in 2003.

During 2004, the Fund made several dispositions, realizing capital gains of $3.1 million (2003 - $0.4 million). The Fund's portfolio also experienced unrealized gains of $17.0 million during the year compared to $11.2 million of unrealized gains in 2003. Fueled by strong realized and unreal-

ized gains, the Fund generated total results of operations of $30.8 million or $2.11 per unit for 2004 versus $13.5 million or $0.94 per unit in the short year of 2003.

Throughout 2004, the Fund continued to build the portfolio with proceeds from its initial public offering in October 2003. As a result, cash balances declined from $36.2 million at December 31, 2003 to $5.5 million at December 31, 2004. The chart below reflects the Fund's portfolio based on market values as at year end.

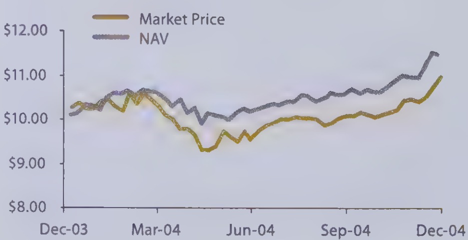
Portfolio Holdings



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

In 2004, Citadel Income & Growth's unit price traded below its net asset value during the year with an average discount of 4.1%. As a result, the Fund was required to repurchase 466,750 units for cancellation under its mandatory repurchase program at an average cost of $10.04 per unit. Under its mandatory repurchase program, Citadel Income & Growth is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector and equities in general. Although the capital appreciation levels of 2004 are not expected to be repeated in 2005, we do expect to generate distribution driven returns in 2005.

Citadel Income & Growth expects to maintain its current monthly distribution of $0.0708 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio and our investment manager's view of the general equities market.

Management's Responsibility Statement

The financial statements of Citadel Income & Growth Fund have been prepared by Citadel IG Management Ltd. ("CIGM") and approved by the Board of Directors of CIGM. CIGM is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CIGM maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CIGM is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of CIGM and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Citadel IG Management Ltd.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
Citadel IG Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Citadel Income & Growth Fund

We have audited the statements of net assets and investments of Citadel Income & Growth Fund as at December 31, 2004 and 2003, and the statements of operations and changes in net assets for the year ended December 31, 2004 and for the period August 21, 2003, the date of the inception of the Fund, to December 31, 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and 2003 and the results of its operations and the changes in its net assets for the year ended December 31, 2004 and for the period August 21, 2003, the date of the inception of the Fund, to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

Statement of Net Assets

As at December 31,	2004	2003
Assets		
Investments, at market (cost: 2004 - $131,589,157; 2003 - $102,096,895)	$ 159,841,770	$ 113,319,054
Cash and term deposits	5,460,137	36,194,395
Revenue receivable	1,327,242	931,828
Accounts receivable	57,063	–
Prepaid expenses	52,413	49,479
	166,738,625	150,494,756
Liabilities		
Accounts payable and accrued liabilities	633,048	143,715
Distributions payable	1,015,967	1,034,612
	1,649,015	1,178,327
Net Assets representing Unitholders' Equity	$ 165,089,610	$ 149,316,429
Units outstanding (note 3)	14,349,822	14,613,166
Net asset value per unit	$ 11.50	$ 10.22

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

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Statement of Operations

	Year Ended December 31, 2004	For the Period August 21, 2003 to December 31, 2003
Revenue		
Investment income	$ 13,443,921	$ 2,425,546
	13,443,921	2,425,546
Expenses		
Administrative and investment manager fees (note 4)	1,791,104	341,565
Trailer fee (note 5)	608,703	116,905
General and administration costs	381,289	87,792
	2,781,096	546,262
Net investment income	10,662,825	1,879,284
Net realized gain on sale of investments (note 6)	3,066,473	432,298
Net change in unrealized gain on investments	17,030,455	11,222,159
Total results of operations	$ 30,759,753	$ 13,533,741
Results of operations per unit [(1)]		
Net investment income	$ 0.73	$ 0.13
Net realized gain on sale of investments	0.21	0.03
Net change in unrealized gain on investments	1.17	0.78
	$ 2.11	$ 0.94

(1) Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

	Year Ended December 31, 2004	For the Period August 21, 2003 to December 31, 2003
Net Assets – beginning of period	$ 149,316,429	$ –
Operations:		
Net investment income	10,662,825	1,879,284
Net realized gain on sale of investments	3,066,473	432,298
Net change in unrealized gain on investments	17,030,455	11,222,159
	30,759,753	13,533,741
Unitholder Transactions:		
Proceeds from issuance of trust units, net	2,031,780	137,850,903
Repurchase of trust units	(4,685,318)	–
	(2,653,538)	137,850,903
Distributions to Unitholders: (note 7)	(12,333,034)	(2,068,215)
Net Assets – end of period	$ 165,089,610	$ 149,316,429
Distributions per unit	$ 0.8496	$ 0.1416

see accompanying notes

Statement of Investments

	As at December 31, 2004			As at December 31, 2003		
	Cost	Market	% of Market	Cost	Market	% of Market
Ongoing Business Trusts						
ACS Media Income Fund	$ 2,843,700	$ 2,820,000		$ 2,843,700	$ 3,240,000	
Advanced Fiber Technologies Income Fund	2,683,800	1,245,300		2,683,800	2,593,500	
Arctic Glacier income Fund	–	–		7,984	8,400	
Atlas Cold Storage Income Trust	–	–		108,384	83,312	
The Brick Group Income Fund	2,200,000	3,071,200		–	–	
Chemtrade Logistics Income Fund	3,648,040	4,466,000		3,648,040	3,971,000	
Cineplex Galaxy Income Fund	3,118,614	4,579,050		1,502,614	1,530,150	
Consumers' Waterheater Income Fund	–	–		113,881	126,054	
Custom Direct Income Fund	3,323,305	4,025,000		2,325,404	2,590,000	
Davis + Henderson Income Fund	–	–		255,713	293,160	
Direct Cash Income Fund	425,000	590,750		–	–	
Hot House Growers Income Fund	3,055,509	2,200,520		1,500,000	1,651,500	
KCP Income Fund	2,659,733	2,721,600		2,659,733	2,928,000	
Livingston International Income Fund	2,162,095	3,398,930		2,162,095	2,460,250	
Medical Facilities Corp.	3,023,038	3,644,520		–	–	
Noranda Income Fund	1,303,313	1,631,500		2,656,754	3,084,600	
Priszm Canadian Income Fund	4,666,020	6,798,800		3,350,000	3,500,750	
Rogers Sugar Income Fund	3,755,275	4,500,000		2,747,075	2,700,000	
ROW Entertainment Income Fund	2,501,000	2,970,000		2,501,000	2,665,000	
SFK Pulp Fund	3,540,727	3,443,750		2,102,143	2,280,000	
Second Cup Royalty Income Fund	1,600,000	1,899,200		–	–	
Specialty Foods Group Income Fund	2,440,293	1,350,000		780,840	705,067	
SunGro Horticultural Income Fund	3,057,335	2,730,250		–	–	
TimberWest Forest Corp.	1,974,694	2,639,000		1,974,694	2,222,500	
TransForce Income Fund	3,625,453	6,092,000		3,665,407	4,058,750	
Tree Island Wire Income Fund	–	–		206,494	234,840	
UE Waterheater Income Fund	–	–		938,000	1,073,072	
	57,606,944	66,817,370	40.5%	40,733,755	43,999,905	29.5%
Oil & Gas Royalty Trusts						
Acclaim Energy Trust	4,253,068	5,040,000		2,337,537	2,508,480	
APF Energy Trust	–	–		2,115,601	2,257,200	
ARC Energy Trust	3,950,511	5,280,500		3,950,511	4,348,300	
Bonavista Energy Trust	4,511,839	6,761,450		3,459,838	4,187,505	
Crescent Point Energy Trust	3,000,000	4,212,500		3,000,000	3,312,500	
Esprit Energy Trust	4,260,500	4,336,500		–	–	
Enerplus Resources Fund	–	–		691,639	779,091	
Harvest Energy Trust	2,808,000	4,475,250		–	–	
NAV Energy Trust	1,158,000	1,164,072		–	–	
Paramount Energy Trust	2,083,445	2,689,078		–	–	
Vermilion Energy Trust	4,297,370	6,036,000		4,297,370	4,602,000	
	30,322,733	39,995,350	24.2%	19,852,496	21,995,076	14.7%
Real Estate Investment Trusts						
Borealis Retail REIT	–	–		209,583	228,732	
Calloway REIT	2,486,400	4,440,000		2,486,400	3,205,668	
Canadian Apartment REIT	–	–		229,351	239,616	
Canadian REIT	–	–		189,640	208,520	
Dundee REIT	2,232,847	2,560,000		1,747,847	1,872,000	
H & R REIT	–	–		456,274	469,359	
InnVest REIT	2,260,981	2,380,000		23,397	28,591	
O & Y REIT	1,876,806	2,397,000		2,208,006	2,350,000	
Retirement Residences REIT	4,458,461	4,120,000		3,612,796	4,047,750	
RioCan REIT	–	–		744,878	798,140	
Summit REIT	–	–		200,945	219,591	
	13,315,495	15,897,000	9.6%	12,109,117	13,667,967	9.0%
Power Generation Investments						
Algonquin Power Income Fund	–	–		754,615	869,054	
Calpine Power Income Fund	–	–		147,985	154,193	
Clean Power Income Fund	–	–		255,709	275,965	
Great Lakes Hydro Income Fund	–	–		127,956	147,563	
TransAlta Power L.P.	–	–		121,095	126,873	
TransCanada Power L.P.	–	–		864,313	922,564	
	–	–	0.0%	2,271,673	2,496,212	1.7%

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Pipeline/Energy Investments						
CCS Income Trust	2,160,000	3,953,700		4,425,600	5,624,200	
Energy Savings income Fund	4,136,440	6,545,000		4,136,440	4,785,500	
Fording Canadian Coal Income Trust	–	–		18,034	28,244	
Heating Oil Partners Income Fund	2,901,230	1,594,450		2,901,230	3,166,600	
Stoneham Drilling Trust	475,200	475,200		–	–	
Superior Plus Income Fund	2,746,647	3,452,300		2,746,647	2,950,900	
Trinidad Energy Services Income Fund	2,079,000	4,384,800		2,079,000	2,860,200	
	14,498,517	20,405,450	12.3%	16,306,951	19,415,644	13.0%
Common Shares						
Abitibi Consolidated Inc.	–	–		2,090,912	2,436,950	
Bank of Montreal	2,210,232	2,310,400		–	–	
Barrick Gold Corporation	2,034,128	2,320,000		2,034,128	2,344,800	
BCE Inc.	4,553,920	4,627,200		4,553,920	4,624,000	
CanWest Global Communications Inc.	2,045,300	2,892,000		–	–	
Domtar Inc.	2,217,000	2,175,000		–	–	
Shawcor Ltd.	2,784,888	2,402,000		2,143,943	2,338,500	
	15,845,468	16,726,600	10.1%	10,822,903	11,744,250	7.9%
Investments	131,589,157	159,841,770	96.7%	102,096,895	113,319,054	75.8%
Cash and Term Deposits	5,460,137	5,460,137	3.3%	36,194,395	36,194,395	24.2%
Total	$ 137,049,294	$ 165,301,907	100.0%	$ 138,291,290	$ 149,513,449	100.0

Notes to the Financial Statements

December 31, 2004 and 2003

1. STRUCTURE OF THE FUND

Citadel Income & Growth Fund (the "Fund" or "Citadel Income & Growth") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 21, 2003 and amended October 16, 2003. The Fund commenced operations on October 16, 2003, when it completed an issue of 14,000,000 trust units at $10.00 per unit through an initial public offering. The term of the Fund continues until June 30, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004 Number	2004 Amount	2003 Number	2003 Amount
Trust units – beginning of period	14,613,166	$ 137,850,903	–	$ –
Issued for cash:				
Initial public offering	–	–	14,000,000	140,000,000
Over-allotment provision	–	–	573,860	5,738,600
Agents' fees and issue costs	–	(27,162)	–	(8,280,666)
Issued for services (note 4)	172,726	1,736,425	38,172	381,720
Issued under DRIP	30,680	322,517	1,134	11,249
Repurchase of trust units	(466,750)	(4,685,318)	–	–
Trust units – end of period	14,349,822	$ 135,197,365	14,613,166	$ 137,850,903

The weighted average number of units outstanding in 2004 was 14,537,085 units (2003 – 14,448,867 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2004, Citadel Income & Growth repurchased 466,750 trust units (2003 - no units) under this program at an average cost of $10.04 per unit.

Unitholders of Citadel Income & Growth can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Citadel Income & Growth at net asset value. In 2004, 30,680 units were issued under the DRIP (2003 – 1,134 units).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel IG Management Ltd. ("CIGM") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2004, the Fund issued 166,526 trust units (2003 - 31,922 units) and recorded an expense of $1,791,104 (2003 - $341,565) in respect of the administrative and investment management fees during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from CIGM of $57,063 (2003 - $26,810 owed to CIGM included in accounts payable).

Directors of CIGM received a total of 6,200 trust units (2003 – 6,250 units) as payment for their annual retainers.

5. TRAILER FEE

Citadel Income & Growth pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $608,703 (2003 -$116,905) relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2004	2003
Net proceeds from the sale of securities	$ 29,885,990	$ 5,643,046
Less cost of securities sold:		
Investments at cost – beginning of period	102,096,895	–
Investments purchased during period	56,311,779	107,307,643
Investments at cost – end of period	(131,589,157)	(102,096,895)
Cost of investments disposed of during period	26,819,517	5,210,748
Net realized gain on sale of investments	$ 3,066,473	$ 432,298

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions currently targeted at $0.0708 per unit based upon cash distributions received by the Fund less estimated expenses.

	2004	2003
Net investment income for the period	$ 10,662,825	$ 1,879,284
Add fees paid by issuance of units	1,736,425	332,241
Realized capital gains distributed (cashflow retained)	(66,216)	(143,310)
Cash distributions	12,333,034	2,068,215
Cash distributions per unit	$ 0.8496	$ 0.1416

8. INCOME TAXES

As all taxable income was allocated to unitholders in 2004 and 2003, no provision for income taxes has been made in these financial statements.

9. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

Income & Equity Index Participation Fund

Stock Symbol	IEP.un (TSX)
2004 High/Low	**$9.99 - $7.35**
2004 Distribution	**$0.70 per unit**
2004 Taxable %	**48%**
2004 Total Return	**6.6%**
2004 Management Expense Ratio	**1.1%** (annualized)

Income & Equity Index Participation Fund (the "Fund" or "Income & Equity") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 18, 2004. The Fund has a termination date of June 30, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Income & Equity's investment objective is to provide investors with monthly cash distributions from an equal weighted diversified portfolio of Canadian income funds and to provide an opportunity to participate in gains in the broader Canadian equity market as represented by the S&P/TSX 60 Index through a 5 year capped call option on the index.

Pursuant to the Fund's distribution policy, Income & Equity pays monthly cash distributions to the extent of the distributions received from the Fund's portfolio less expenses. In 2004, the Fund made monthly distributions of $0.07 per unit commencing on April 15, 2004 for unitholders of record on March 31, 2004 for a total of $0.70 per unit. The initial distribution rate represents an annual yield of 8.4% based upon the issue price of $10.00 per unit. For tax purposes, these distributions were allocated as 33.7% other taxable income, 5.3% dividend income, 20.7% capital gains and 40.3% return of capital. The net effective taxable portion of the 2004 distribution was approximately 48%.

INVESTMENT HIGHLIGHTS:

	2004			
	Q4	Q3	Q2	Q1
Net Asset Value per Unit [1]	$ 10.52	$ 9.54	$ 8.91	$ 9.47
Market Price per Unit [1]	$ 9.88	$ 8.87	$ 9.00	$ 9.80
Trading Premium (Discount)	(6.1%)	(7.0%)	1.0%	3.5%
Quarterly Distributions per Unit [2]	$ 0.21	$ 0.21	$ 0.21	$ 0.07
Market Capitalization ($ millions)	$ 150.3	$ 135.3	$ 137.1	$ 149.0

[1] Net asset value and market price per unit are based on quarter end values.

[2] First monthly distribution had a record date of March 31, 2004 and was paid April 15, 2004

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

Upon closing of Income & Equity's initial public offering on February 18, 2004 and the exercise of an over-allotment option on March 8, 2004, the Fund raised gross proceeds of $151.9 million (net proceeds of $143.3 million). The net proceeds, along with $18.75 million of term loan facility, were used to invest in an equal weighted portfolio of Canadian income funds with market capitalizations of at least $200 million and to purchase a 5 year capped call option on the S&P/TSX 60 Index. Following a contraction of net asset value in the second quarter of 2004, the Fund showed a strengthening net asset value through the balance of the year. As at December 31, 2004, the Fund's net assets were $160.1 million or $10.52 per unit. The Fund's unit price closed the year at $9.88 per unit. Inclusive of distributions, the Fund generated a total return of 6.6% in 2004.

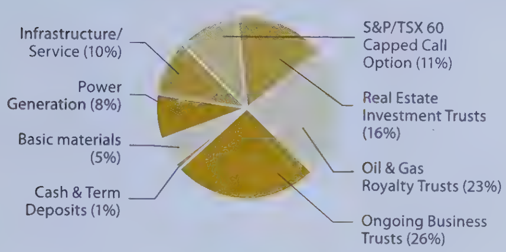
Total revenue for the Fund's partial year of operations was $12.6 million. Administrative and investment manager fees, which are paid in units and calculated in reference to the Fund's net asset value, totaled $0.7 million for the year. Trailer fees, which are also calculated in reference to the Fund's net asset value, totaled $0.4 million for 2004. General and administration costs totaled $0.3 million for the year while loan interest totaled $0.7 million. After total expenses of $2.1 million, the Fund generated net investment income of $10.5 million or $0.69 per unit for 2004.

The Fund is structured to rebalance its portfolio on a semi-annual basis in June and December. Accordingly, the Fund

realized capital gains of $2.0 million on the sale of investments as a result of the rebalancing. Unrealized gains in the Fund's portfolio totaled $12.5 million and unrealized gains on the S&P/TSX 60 Index totaled $2.3 million for the year. For the period from February 18, 2004, the Fund generated total results of operations of $27.2 million or $1.79 per unit for 2004.

The chart below reflects the Fund's portfolio based on market values as at year end.

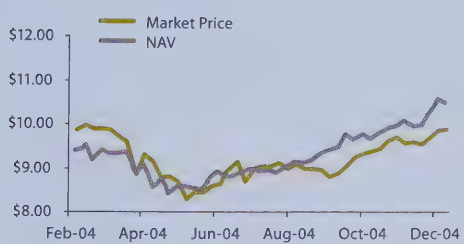
Portfolio Holdings



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

Throughout 2004, Income & Equity's unit price at times traded above and below its net asset value with an average discount of 0.7%. In the fourth quarter of 2004, the trading discount widened and the Fund was required to repurchase 65,400 units for cancellation under its mandatory repurchase program at an average cost of $9.38 per unit. Under its mandatory repurchase program, Income & Equity is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The current combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. Although the capital appreciation levels of 2004 are not expected to be repeated in 2005, we do expect to generate distribution driven returns in 2005.

Income & Equity expects to maintain its current monthly distribution of $0.07 per unit based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

Management's Responsibility Statement

The financial statements of Income & Equity Index Participation Fund have been prepared by Equity Lift Management Ltd. ("ELML") and approved by the Board of Directors of ELML. ELML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

ELML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of ELML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of ELML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
Equity Lift Management Ltd.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
Equity Lift Management Ltd.

Auditors' Report to Unitholders

To the Unitholders of Income & Equity Index Participation Fund

We have audited the statements of net assets and investments of Income & Equity Index Participation Fund as at December 31, 2004, and the statements of operations and changes in net assets for the period from December 17, 2003, the date of inception of the Fund, to December 31, 2004. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004 and the results of its operations and the changes in its net assets for the period from December 17, 2003, the date of inception of the Fund, to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

Statement of Net Assets

As at December 31,	2004
Assets	
Investments, at market (cost: $163,132,977)	$ 177,927,437
Cash and term deposits	550,054
Revenue receivable	1,185,200
Accounts receivable	329,495
Prepaid expenses	8,022
	180,000,208
Liabilities	
Accounts payable and accrued liabilities	121,714
Distributions payable	1,065,007
Loan payable (note 9)	18,750,000
	19,936,721
Net Assets representing Unitholders' Equity	$ 160,063,487
Units outstanding (note 3)	15,214,381
Net asset value per unit	$ 10.52

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

	For the Period December 17, 2003 to December 31, 2004
Revenue	
Investment income	$ 12,574,388
	12,574,388
Expenses	
Administrative and investment manager fees (note 5)	724,690
Loan interest	677,183
Trailer fee (note 6)	395,891
General and administration costs	301,375
	2,099,139
Net investment income	10,475,249
Net realized gain on sale of investments (note 7)	1,950,659
Net change in unrealized gain on investments	12,531,776
Net change in unrealized gain on S&P/TSX 60 option	2,262,686
Total results of operations	$ 27,220,370
Results of operations per unit [(1)]	
Net investment income	$ 0.69
Net realized gain on sale of investments	0.13
Net change in unrealized gain on investments	0.82
Net change in unrealized gain on S&P/TSX 60 option	0.15
	$ 1.79

[(1)] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

	For the Period December 17, 2003 to December 31, 2004
Net Assets – beginning of period	$ –
Operations:	
Net investment income	10,475,249
Net realized gain on sale of investments	1,950,659
Net change in unrealized gain on investments	12,531,776
Net change in unrealized gain on S&P/TSX 60 option	2,262,686
	27,220,370
Unitholder Transactions:	
Proceeds from issuance of trust units, net	144,116,576
Repurchase of trust units	(613,213)
	143,503,363
Distributions to Unitholders: (note 8)	(10,660,246)
Net Assets – end of period	$ 160,063,487
Distributions per unit	$ 0.70

see accompanying notes

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Statement of Investments

	As at December 31, 2004		
	Cost	Market	% of Market
Ongoing Business Trusts			
ACS Media Income Fund	$ 1,706,735	$ 1,418,159	
Arctic Glacier Income Fund	1,454,131	1,490,928	
BFI Canada Income Fund	1,088,150	1,460,584	
Bell Nordiq Income Fund	1,313,730	1,451,952	
The Brick Group Income Fund	1,483,861	1,495,646	
CML Healthcare Income Fund	1,168,666	1,436,620	
Chemtrade Logistics Income Fund	1,452,611	1,502,058	
Cineplex Galaxy Income Fund	1,136,857	1,465,120	
Clearwater Seafoods Income Fund	1,964,308	1,450,421	
Connors Brothers Income Fund	1,362,329	1,466,953	
Consumers' Waterheater Income Fund	1,330,223	1,380,918	
Contrans Income Fund	1,214,848	1,446,886	
Custom Direct Income Fund	1,331,504	1,447,286	
Davis + Henderson Income Fund	1,225,506	1,468,872	
Gateway Casinos Income Fund	1,261,068	1,498,953	
KCP Income Fund	1,267,276	1,472,068	
Keyspan Facilities Income Fund	1,297,841	1,473,781	
Livingston International Income Fund	1,147,262	1,481,745	
Menu Foods Income Fund	1,506,386	1,464,700	
Movie Distribution Income Fund	1,219,674	1,511,569	
North West Company Fund	1,283,973	1,483,514	
Osprey Media Income Fund	1,491,125	1,491,125	
Priszm Canadian Income Fund	1,490,386	1,463,649	
Rogers Sugar Income Fund	1,367,372	1,443,348	
ROW Entertainment Income Fund	1,490,571	1,433,845	
Sleep Country Canada Income Fund	1,474,981	1,407,240	
TransForce Income Fund	1,038,672	1,452,622	
Tree Island Wire Income Fund	1,170,774	1,515,064	
UE Waterheater Income Fund	1,393,702	1,479,428	
Versacold Income Fund	1,660,815	1,537,513	
Westshore Terminals Income Fund	938,121	1,544,254	
Yellow Pages Income Fund	1,354,863	1,478,477	
	43,088,321	47,015,298	26.3%
Oil & Gas Royalty Trusts			
APF Energy Trust	1,460,337	1,440,693	
ARC Energy Trust	1,257,637	1,504,370	
Acclaim Energy Trust	1,213,843	1,466,712	
Advantage Energy Trust	1,175,373	1,457,898	
Baytex Energy Trust	1,208,046	1,475,037	
Bonavista Energy Trust	1,120,863	1,439,877	
Bonterra Energy Trust	1,485,086	1,500,026	
Calpine Natural Gas Trust	1,352,494	1,485,051	
Canadian Oil Sands Trust	1,141,298	1,622,031	
Crescent Point Energy Trust	1,216,333	1,463,338	
Enerplus Resources Fund	1,302,595	1,474,901	
Enterra Energy Trust	1,093,613	1,450,526	
Esprit Energy Trust	1,499,847	1,469,020	
Focus Energy Trust	1,018,839	1,432,668	
Freehold Royalty Trust	1,247,542	1,451,770	
Harvest Energy Trust	1,478,512	1,488,239	
NAL Oil & Gas Trust	1,186,742	1,465,582	
Paramount Energy Trust	1,018,860	1,452,246	
Pengrowth Energy Trust	1,452,735	1,463,479	
Petrofund Energy Trust	1,524,425	1,451,543	
Peyto Energy Trust	836,630	1,476,703	
PrimeWest Energy Trust	1,330,204	1,458,749	
Progress Energy Trust	1,492,631	1,468,732	
Provident Energy Trust	1,377,249	1,451,847	
Shiningbank Energy Income Fund	1,180,131	1,449,307	
Vermilion Energy Trust	1,240,371	1,482,844	
Viking Energy Royalty Trust	1,245,521	1,478,473	
Zargon Oil & Gas Trust	1,481,486	1,427,613	
	35,639,243	41,149,275	23.1%

	As at December 31, 2004		
	Cost	Market	% of Market
Real Estate Investment Trusts			
Alexis Nihon REIT	1,399,927	1,443,639	
Boardwalk REIT	1,267,875	1,473,066	
Borealis Retail REIT	1,347,835	1,446,137	
Calloway REIT	1,176,741	1,457,831	
Canadian REIT	1,372,588	1,432,585	
Canadian Apartment REIT	1,461,271	1,513,142	
Canadian Hotel Income Properties REIT	1,549,179	1,492,054	
Chartwell Seniors Housing REIT	1,488,089	1,495,657	
Cominar REIT	1,389,191	1,468,878	
Dundee REIT	1,440,582	1,482,163	
H&R REIT	1,375,884	1,512,117	
IPC U.S. Income Commercial REIT	1,540,271	1,496,858	
InnVest REIT	1,486,559	1,487,548	
Legacy Hotels REIT	1,461,993	1,503,493	
Morguard REIT	1,406,789	1,479,307	
O&Y REIT	1,436,297	1,495,658	
Retirement Residence REIT	1,878,169	1,482,819	
RioCan REIT	1,334,947	1,435,709	
Summit REIT	1,575,868	1,466,323	
	27,390,055	28,064,984	15.7%
Basic Materials Trusts			
Fording Canadian Coal Trust	787,443	1,487,817	
Great Lakes Carbon Income Fund	1,721,816	1,550,275	
Labrador Iron Ore Royalty Income Fund	1,262,936	1,455,219	
Noranda Income Fund	1,329,875	1,453,767	
SFK Pulp Fund	1,606,268	1,466,370	
TimberWest Forest Corp.	1,289,103	1,502,993	
	7,997,441	8,916,441	5.0%
Power Generation Investments			
Algonquin Power Income Fund	1,592,733	1,499,162	
Boralex Power Income Fund	1,444,434	1,495,621	
Calpine Power Income Fund	1,593,004	1,477,195	
Clean Power Income Fund	2,021,925	1,515,634	
Great Lakes Hydro Income Fund	1,377,976	1,524,546	
Innergex Power Income Fund	1,383,201	1,531,451	
MacQuarie Power Income Fund	1,486,548	1,467,782	
Northland Power Income Fund	1,400,387	1,532,748	
TransCanada Power, L.P.	1,556,431	1,464,410	
TransAlta Power, L.P.	1,481,242	1,498,214	
	15,337,881	15,006,763	8.4%
Infrastructure/Service Investments			
AltaGas Income Trust	1,327,116	1,504,542	
CCS Income Trust	1,082,936	1,510,138	
Enbridge Income Fund	1,363,967	1,495,775	
Energy Savings Income Fund	1,304,656	1,536,939	
Fort Chicago Energy Partners LP	1,436,781	1,465,755	
Gaz Metro	1,461,363	1,410,117	
Inter Pipeline Fund	1,369,148	1,462,687	
Newalta Income Fund	1,165,721	1,446,224	
Pembina Pipeline Income Fund	1,455,748	1,469,968	
Superior Plus Income Fund	1,367,304	1,478,635	
Taylor NGL L.P.	1,487,800	1,567,769	
Trinidad Energy Services Income Fund	1,163,621	1,469,566	
	15,986,161	17,818,115	10.0%
Income Funds	145,439,102	157,970,876	88.5%
S&P/TSX 60 Capped Call Option (note 4)	17,693,875	19,956,561	11.2%
	163,132,977	177,927,437	99.7%
Cash and Term Deposits	550,054	550,054	0.3%
Total	$163,683,031	$178,477,490	100.0%

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Notes to the Financial Statements

December 31, 2004

1. STRUCTURE OF THE FUND

Income & Equity Index Participation Fund (the "Fund" or "Income & Equity") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 17, 2003. The Fund commenced operations on February 18, 2004, when it completed an issue of 15,000,000 trust units at $10.00 per unit through an initial public offering. The term of the Fund continues until June 30, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date. The capped call option is recorded at its fair value on the valuation date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004	
	Number	Amount
Trust units – beginning of period	–	–
Issued for cash:		
Initial public offering	15,000,000	$ 150,000,000
Over-allotment provision	190,000	1,900,000
Agents' fees and issue costs	–	(8,668,357)
Issued for services (note 5)	72,978	729,780
Issued under DRIP	16,803	155,154
Repurchase of trust units	(65,400)	(613,213)
Trust units – end of period	15,214,381	$ 143,503,363

The weighted average number of units outstanding in 2004 was 15,200,989 units.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2004, Income & Equity repurchased 65,400 trust units under this program at an average cost of $9.38 per unit.

Unitholders of Income & Equity can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at net asset value. In 2004, 16,803 units were issued under the DRIP.

4. CAPPED CALL OPTION

Upon closing, the Fund purchased an "at the money" five year capped call on the S&P/TSX 60 index from two chartered banks. The option is a European option which means it can only be exercised on the expiry date of February 18, 2009. The option is capped at the first 30% increase in the S&P/TSX 60 index, representing an additional $3.00 per unit to unitholders.

5. ADMINISTRATIVE AND REBALANCING ADVISORY FEES/DIRECTORS' FEES

Equity Lift Management Ltd. ("ELML") is the administrator of the Fund and Shaunessy & Company Ltd., Inc. is the rebalancing advisor of the Fund. Pursuant to the administrative services and rebalancing advisory agreements, aggregate administrative and rebalancing advisor fees are based upon .55% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2004, the Fund issued 67,728 trust units and recorded an expense of $724,690 in respect of the administrative and rebalancing advisory fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from ELML of $329,495.

Directors of ELML received a total of 5,250 trust units in 2004 as payment for their annual retainers.

6. TRAILER FEE

Income & Equity pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.30% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $395,891 relating to the trailer fee.

7. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

		2004
Net proceeds from the sale of securities	$	35,462,381
Less cost of securities sold:		
Investments at cost – beginning of period		–
Investments purchased during period		178,950,824
Investments at cost – end of period		(145,439,102)
Cost of investments disposed of during period		33,511,722
Net realized gain on sale of investments	$	1,950,659

8. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at $0.07 per unit based upon cash distributions received by the Fund less estimated expenses.

		2004
Net investment income for the period	$	10,475,249
Add fees paid by issuance of units		723,218
Realized capital gains distributed (cashflow retained)		(538,221)
Cash distributions		10,660,246
Cash distributions per unit		$ 0.70

9. LOAN PAYABLE

The Fund maintains a credit facility with a Canadian chartered bank for up to a maximum amount of $22.5 million. At December 31, 2004 the Fund had fully drawn upon the term portion of the facility in the amount of $18.75 million. The term facility is due and payable on the earlier of February 18, 2009 or termination of the Fund. Under the revolving portion of the facility, the full amount of $3.75 million was available at December 31, 2004. Borrowings are collateralized by a $50 million demand debenture which provides a first floating charge over the Fund's assets. The facility bears interest at the bank's prime rate on the revolving facility and prime rate plus ¼% on the term facility.

10. INCOME TAXES

As all taxable income was allocated to unitholders in 2004, no provision for income taxes has been made in these financial statements.

11. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, distributions payable and loan payable approximate their carrying amount due to the short-term maturity of these instruments.

Energy Plus Income Trust

Stock Symbol	**EPF.un (TSX)**
2004 High/Low	**$10.15 - $9.76**
2004 Distribution	**$0.095 per unit**
2004 Taxable %	**20%**
2004 Management Expense Ratio	**1.8%** (annualized)

Energy Plus Income Trust (the "Fund" or "Energy Plus") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on November 16, 2004. The Trust does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders.

Energy Plus' investment objectives are to provide investors with monthly cash distributions and to achieve a total return on the portfolio that is greater than the total return provided by the S&P/TSX Capped Energy Trust Index. The investment manager will seek to achieve these objectives by selecting and actively managing a diverse portfolio of oil and gas trusts and other resource-based securities.

Pursuant to the Fund's distribution policy, Energy Plus pays monthly cash distributions to the extent of the distributions received from the Fund's portfolio less expenses. In 2004, the Fund made two monthly distributions for a total of $0.095 per unit, which represented partial distributions as the Fund's portfolio was not fully invested. For tax purposes these distributions were allocated as 1.8% other taxable income, 0.2% dividend income, 35.5% capital gains and 62.5% return of capital. The net effective taxable portion of the 2004 distribution was approximately 20%.

INVESTMENT HIGHLIGHTS:

	2004
	Q4
Net Asset Value per Unit [1]	$ 9.52
Market Price per Unit [1]	$ 9.96
Trading Premium (Discount)	4.6%
Quarterly Distributions per Unit [2]	$ 0.095
Market Capitalization ($ millions)	$ 111.3

[1] Net asset value and market price per unit are based on quarter end values.

[2] First monthly distribution had a record date of November 30, 2004 and was paid December 15, 2004

Management's Discussion & Analysis

(April 6, 2005)

FINANCIAL RESULTS

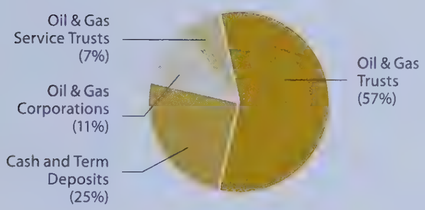
Upon closing of Energy Plus' initial public offering on November 16, 2004 and the exercise of an over-allotment option on December 1, 2004, the Fund raised gross proceeds of $111.5 million (net proceeds of $105.0 million). As at December 31, 2004, the Fund's net assets were $106.4 million or $9.52 per unit reflecting some modest capital appreciation in the Fund's portfolio to year end. The Fund's unit price closed down slightly from its issue price of $10.00 per unit to $9.96 per unit at December 31, 2004.

Total revenue for the Fund's partial year of operation was $1.2 million, which covered the period from November 16, 2004 to December 31, 2004. Administrative and investment manager fees, which are paid in units and calculated in reference to the Trust's net asset value, totaled $0.15 million for the period. Trailer fees, which are also calculated in reference to the Trust's net asset value, totaled $55,858 for the period while general and administration costs totaled $54,944. After total expenses of $0.26 million, the Trust generated net investment income of $0.9 million or $0.08 per unit for 2004.

During the short fiscal period, the Trust realized capital gains of $0.4 million on the sale of investments as it rationalized its portfolio from investments obtained through the exchange offer portion of the initial public offering. Unrealized gains in the Trust's portfolio totaled $1.0 million for the period. The Fund generated total results of operations of $2.2 million or $0.20 per unit over the period from inception to December 31, 2004.

By year end, the Fund's investment manager had invested approximately 75% of the net proceeds into oil and gas royalty trusts/corporations and other resource based investments. As at December 31, 2004, cash balances of $26.5 million were available for future investment. The chart below reflects the Trust's portfolio based on market values as at year end.

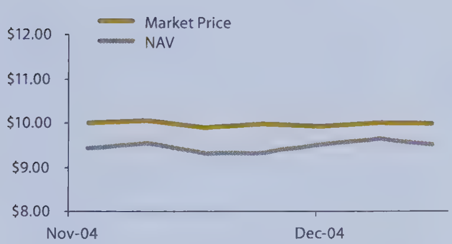
Portfolio Holdings



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For the short period in 2004, Energy Plus' unit price traded above its net asset value with an average premium of 5.3%. As a result, the Fund was not required to repurchase any units for cancellation under its mandatory repurchase program. Under its mandatory repurchase program, the Trust is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Trading Premium (Discount)



RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distributions to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

OUTLOOK FOR 2005

The combination of low inflation, high commodity prices and low interest rates provide a favorable environment and positive outlook for the income trust sector. The current economic and commodity price environment bodes well for oil and gas trusts and junior exploration and development corporations, as well as the energy service trusts.

As a result, Energy Plus expects to deliver distributions in the range of $0.95 to $1.05 per unit for 2005 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

Management's Responsibility Statement

The financial statements of Energy Plus Income Trust have been prepared by N.A. Energy Management Inc. ("NAEM") and approved by the Board of Directors of NAEM. NAEM is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

NAEM maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Trust are described in Note 2 to the financial statements.

The Board of Directors of NAEM is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

The Audit Committee on behalf of NAEM and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

James T. Bruvall
Chief Executive Officer
N.A. Energy Management Inc.
April 6, 2005

Darren K. Duncan
Chief Financial Officer
N.A. Energy Management Inc.

Auditors' Report to Unitholders

To the Unitholders of Energy Plus Income Trust

We have audited the statements of net assets and investments of Energy Plus Income Trust as at December 31, 2004, and the statements of operations and changes in net assets for the period from September 23, 2004, the date of inception of the Trust, to December 31, 2004. These financial statements are the responsibility of management of the Trust's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Trust as at December 31, 2004 and the results of its operations and the changes in its net assets for the period from September 23, 2004, the date of inception of the Trust, to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 31, 2005

EPF.un

Statement of Net Assets

As at December 31,	2004
Assets	
Investments, at market (cost: $79,286,327)	$ 80,253,226
Cash and term deposits	26,503,912
Revenue receivable	641,224
Accounts receivable	274,991
Prepaid expenses	56,186
	107,729,539
Liabilities	
Accounts payable and accrued liabilities	708,896
Distributions payable	614,442
	1,323,338
Net Assets representing Unitholders' Equity	$ 106,406,201
Units outstanding (note 3)	11,171,679
Net asset value per unit	$ 9.52

see accompanying notes

Signed on behalf of the Board,

Harold P. Milavsky
Chairman of the Board

James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

	For the Period September 23, 2004 to December 31, 2004
Revenue	
Investment income	$ 1,160,530
	1,160,530
Expenses	
Administrative and investment manager fees (note 4)	150,356
Trailer fee (note 5)	55,858
General and administration costs	54,944
	261,158
Net investment income	899,372
Net realized gain on sale of investments (note 6)	366,480
Net change in unrealized gain on investments	966,899
Total results of operations	$ 2,232,751
Results of operations per unit [(1)]	
Net investment income	$ 0.08
Net realized gain on sale of investments	0.03
Net change in unrealized gain on investments	0.09
	$ 0.20

(1) Based on the weighted average number of units outstanding.

see accompanying notes

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Statement of Changes in Net Assets

	For the Period September 23, 2004 to December 31, 2004
Net Assets – beginning of period	$ –
Operations:	
Net investment income	899,372
Net realized gain on sale of investments	366,480
Net change in unrealized gain on investments	966,899
	2,232,751
Unitholder Transactions:	
Proceeds from issuance of trust units, net	105,208,324
	105,208,324
Distributions to Unitholders: (note 7)	(1,034,874)
Net Assets – end of period	$ 106,406,201
Distributions per unit	$ 0.095

see accompanying notes

Statement of Investments

	As at December 31, 2004		
	Cost	Market	% of Market
Oil & Gas Trusts			
APF Energy Trust	$ 1,599,585	$ 1,582,200	
ARC Energy Trust	3,800,566	4,031,080	
Acclaim Energy Trust	2,841,423	2,880,000	
Bonavista Energy Trust	5,920,987	5,962,000	
Bonavista Energy Trust Subscription Receipts	1,421,750	1,476,200	
Crescent Point Energy Trust	3,853,002	3,823,265	
Daylight Energy Trust	4,633,250	4,320,000	
Focus Energy Trust	4,306,435	4,263,595	
Freehold Royalty Trust	3,095,227	3,021,904	
Harvest Energy Trust	4,256,446	4,388,040	
NAL Oil & Gas Trust	4,647,135	4,566,350	
Paramount Energy Trust	5,472,731	5,551,902	
Peyto Energy Trust	3,203,430	3,587,250	
Progress Energy Trust	3,175,621	3,150,160	
Shiningbank Energy Trust	3,452,276	3,438,400	
Zargon Energy Trust	4,418,377	4,536,270	
	60,098,241	60,578,616	56.8%
Oil & Gas Corporations			
Fairborne Energy Ltd.	1,646,515	1,590,600	
Ketch Resources Ltd.	5,420,075	5,492,500	
Midnight Oil Exploration Ltd.	597,296	680,000	
Starpoint Energy Ltd.	4,127,326	4,107,500	
	11,791,212	11,870,600	11.1%
Oil & Gas Service Trusts			
CCS Income Trust	1,555,654	1,757,200	
Peak Energy Services Trust	1,611,835	1,648,010	
Stoneham Drilling Trust	568,800	568,800	
Trinidad Energy Services Income Fund	1,491,463	1,566,000	
Wellco Energy Services Income Trust	2,169,122	2,264,000	
	7,396,874	7,804,010	7.3%
Investments	79,286,327	80,253,226	75.2%
Cash and Term Deposits	26,503,912	26,503,912	24.8%
Total	$ 105,790,239	$ 106,757,138	100.0%

Notes to the Financial Statements

December 31, 2004

1. STRUCTURE OF THE FUND

Energy Plus Income Trust (the "Fund" or "Energy Plus") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of September 23, 2004. The Fund commenced operations on November 16, 2004, when it completed an issue of 10,500,000 trust units at $10.00 per unit through an initial public offering. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2004	
	Number	Amount
Trust units – beginning of period	–	$ –
Issued for cash:		
Initial public offering	10,500,000	105,000,000
Over-allotment provision	650,000	6,500,000
Agents' fees and issue costs	–	(6,507,736)
Issued for services (note 4)	20,302	203,020
Issued under DRIP	1,377	13,040
Trust units – end of period	11,171,679	$ 105,208,324

The weighted average number of units outstanding in 2004 was 10,947,686 units.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2004, no trust units were required to be repurchased under this program.

Unitholders of Energy Plus can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average trading price of the Fund's units. In 2004, a total of 1,377 units were issued under the DRIP.

4. ADMINISTRATIVE AND INVESTMENT MANAGER/DIRECTORS' FEES

N.A. Energy Management Inc. ("NAEM") is the administrator of the Fund and Galileo Equity Management Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment manager fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2004, the Fund issued 14,052 trust units and recorded an expense of $150,356 in respect of the administrative and investment management fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2004, included in accounts receivable were amounts owed from NAEM of $112,422.

Directors of NAEM received a total of 6,250 trust units in 2004 as payment for their annual retainers.

5. TRAILER FEE

Energy Plus pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2004, the Fund recorded an expense of $55,858 relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

		2004
Net proceeds from the sale of securities	$	7,605,258
Less cost of securities sold:		
Investments at cost – beginning of period		–
Investments purchased during period		86,525,105
Investments at cost – end of period		(79,286,327)
Cost of investments disposed of during period		7,238,778
Net realized gain on sale of investments	$	366,480

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses.

		2004
Net investment income for the period	$	899,372
Add fees paid by issuance of units		148,332
Realized capital distributed (cashflow retained)		(12,830)
Cash distributions		1,034,874
Cash distributions per unit		$ 0.095

8. LOAN PAYABLE

The Fund maintains a credit facility with a Canadian chartered bank for up to a maximum amount of $25 million. No amount was drawn under the credit facility at December 31, 2004. The credit facility is a revolving facility that will revolve until November 25, 2005 and for a further 364 days at the option of the bank. Borrowings are collateralized by a general security agreement which provides a first floating charge over the Fund's assets. The facility bear interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances.

9. INCOME TAXES

As all taxable income was allocated to unitholders in 2004, no provision for income taxes has been made in these financial statements.

10. FINANCIAL INSTRUMENTS

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

Citadel Stable S-1 Income Fund

Citadel Stable S-1 Income Fund (the "Fund" or "Citadel Stable S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange under the symbol "CSR.un" on February 15, 2005. The Fund's investment objectives are to provide its unitholders with stable and sustainable monthly distributions and to maintain an S&P SR-1 or equivalent stability rating. The investment manager will seek to achieve these objectives by selecting and actively managing a diverse portfolio of Canadian income funds and Canadian high yielding debt while maintaining an SR-1 stability rating. This rating signifies Standard & Poor's assessment that the Fund's units have the highest level of distribution sustainability and the lowest level of distribution variability in relation to other rated Canadian income funds.

The Fund's initial public offering and the exercise of the over-allotment provision raised gross proceeds of $575.0 million. As at March 17, 2005, the Fund's net asset value was $9.20 per unit. As of this date, approximately 72% of the proceeds from the initial public offering had been invested.

Citadel Stable S-1 Income Fund is administered by Stable Yield Management Inc. and the investment manager is Bloom Investment Counsel, Inc.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
MYDAS Management Inc.
Citadel Multi-Sector Management Inc.
Citadel Series Management Ltd.
Citadel IG Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Investment Manager

(all funds except IEP.un and EPF.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Rebalancing Advisor

(IEP.un)
Shaunessy & Company Ltd.
Suite 308, 908-17th Avenue S.W.
Calgary, Alberta T2T 0A8

Trustee

(all funds except SDL.un)
Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Trustee

(SDL.un)
BNY Trust Company of Canada
Suite 1101, 4 King Street West
Toronto, Ontario M5H 1B6

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

Stikeman Elliott LLP
4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
MYDAS Fund units: **MYF.un**
Citadel Multi-Sector Income Fund units: **CMS.un**
Series S-1 Income Fund units: **SRC.un**
Citadel Income & Growth Fund units: **CIF.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**

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CITADEL
Group of Funds

Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Tel: (403) 261-9674 Fax: (403) 261-8670
Toll Free: 1 877 261-9674
Web: www.citadelfunds.com

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